

Responsible consumer finance

Annual Report
and Financial Statements 2017

International
Personal
Finance



Performance highlights – continuing operations

Customers ('000)

2,290 (9%)

2015	2,663
2016	2,521
2017	2,290

Credit issued (£M)

£1,301.5M +6%

2015	1,033.3
2016	1,145.0
2017	1,301.5

Revenue (£M)

£825.8M +1%

2015	731.5
2016	756.8
2017	825.8

Profit before tax (£M)

£105.6M +10%

2015	105.1
2016	96.0
2017	105.6

Pre-exceptional profit before tax (£M)

£105.6M +10%

2015	121.0
2016	96.0
2017	105.6

EPS (p)

20.2p (37%)

2015	29.7
2016	32.2
2017	20.2

Pre-exceptional EPS (p)

33.7p +5%

2015	39.5
2016	32.2
2017	33.7

Dividend per share (p)

12.4p

2015	12.4
2016	12.4
2017	12.4

Discontinued operations

The sale of our home credit business in Bulgaria in June 2017 resulted in a one-off accounting charge of £5.7 million which, together with the trading loss of £2.7 million generated in 2017, has been accounted for as a discontinued operation in accordance with IFRS 5.

Alternative Performance Measures

This Annual Report and Financial Statements provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included an accounting policy note on APMs on page 101, a reconciliation of the APMs we use where relevant and a glossary on pages 133 to 136 indicating the APMs that we use, an explanation of how they are calculated and why we use them.

Cautionary statement

The purpose of this report is to provide information to the members of the Company. It has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors and employees, agents or advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report and Financial Statements contain certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of the Annual Report and Financial Statements and the Company undertakes no obligation to update these forward-looking statements (other than to the extent required by legislation and the Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority). Nothing in this year's Annual Report and Financial Statements should be construed as a profit forecast.

International Personal Finance plc ('IPF'). Company number: 6018973.

Percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate ('CER') for 2017 in order to present the underlying performance variance.

Introduction

Our vision is to make a difference in the lives of our 2.3 million customers based in Europe, Mexico and Australia by providing simple, personalised financial solutions. We specialise in providing unsecured credit to people with low to middle incomes who want to borrow small sums and repay in manageable, affordable amounts.

Our two key channel offerings – home credit and digital – allow us to respond to changing consumer behaviour and ensure we provide responsible credit products that our customers want.

Home credit

Home credit includes our face-to-face at-home service provided by over 22,500 agents



Digital

Digital serves customers who prefer to take out credit online and repay remotely



View our report online
www.ipfin.co.uk

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Delivering long-term growth responsibly

Overview

I am pleased to report that we delivered a solid operational and financial performance in 2017. This was achieved against the backdrop of an external environment characterised by regulatory proposals and changes, tax challenges and intense competition. We provide much-needed access to regulated credit for people who might otherwise be financially excluded and, while we continue to modernise the Group in response to the changing needs of consumers, our values of being respectful, responsible and straightforward guide the way we serve our customers and govern our business. Led by the Board, we continued to take an active approach to risk management. This, together with product



innovation and our regulatory stakeholder engagement programme, supports the work we have undertaken to help protect our business model. I was delighted to see our businesses receive numerous prestigious awards over the course of the year in recognition of our responsible lending practices, outstanding corporate culture and offering a great place to work, all of which are indicative of the high regard we are held in when serving customers, managing risk and developing our people.

Our strategy

We understand our consumer segment well and are evolving the business to ensure our products and services suit customers' changing needs and circumstances. By offering a broader choice of more competitively priced products, including longer-term home credit loans and digital credit offerings, we aim to offer better customer value and improve credit quality. Our strategy is focused on delivering sustainable growth, enhancing profitability and making efficient use of capital. We now segment our businesses into two broad categories, namely 'growth' focused businesses and 'returns' focused businesses. Our European home credit businesses are in the returns category and they are managed to deliver the best possible level of customer service and to optimise returns. The capital they generate is used to fund investment in our growth businesses, IPF Digital and Mexico home credit, as well as delivering progressive returns to our shareholders. We made more good progress against our strategy in 2017 and it is particularly pleasing to see the strong performance delivered by IPF Digital.

Regulatory update

Consumer credit operators serving customers in Europe continued to face regulatory challenges during 2017, and our business was no exception. Rate cap proposals, changes to tax law and more stringent creditworthiness assessment requirements impacted how we do business.

As I reported in last year's annual report, the Polish Ministry of Justice published a proposal at the end of 2016 to tighten the existing rate cap on consumer loans in Poland. There has been no further update on this matter and we, together with other consumer lending operators, continue to serve customers in this uncertain environment. We are also working with interested parties to encourage an

"We are adapting our business to capture the opportunity that growing consumer credit demand offers and responding to a more challenging competitive and regulatory environment."

Dan O'Connor
Chairman

outcome that is good for both consumers and business. As previously reported, our home credit business in Poland appealed decisions received in January 2017 from the Polish Tax Chamber with respect to its 2008 and 2009 financial years. At the time of our original announcement, we said that we intended to initiate a process with the UK tax authority aimed at ensuring that the intra-group arrangement, which is being challenged, is taxed in accordance with international tax principles. This has now been initiated and, in response, the Polish court has stayed the hearings of the 2008 and 2009 appeals pending resolution of this process. Additionally, a comprehensive set of changes to Polish corporate income tax came into force on 1 January 2018. The main impact for our business is a one-off deferred tax charge of £30 million which has been reflected in the 2017 financial statements. Further detail on both these matters is included in the financial review on pages 31 to 35.

We also faced regulatory changes in Romania where more stringent creditworthiness assessment requirements introduced in January 2017 impacted growth. More recent regulatory change means that our business in Romania is now supervised by the National Bank of Romania and this is likely to lead to a further tightening of credit criteria and a reduction in the volume of loans we are allowed to serve customers. We have a good track record of adapting our business model to regulatory changes and CEO, Gerard Ryan covers current regulatory matters on page 15.

2017 financial performance

We delivered profit before taxation from continuing operations of £105.6 million, an increase of £9.6 million including an £11.3 million positive FX benefit. We delivered credit issued growth of 6% led by IPF Digital and our Mexico home credit business. Group portfolio quality remains good and I am pleased to report that our home credit business in Mexico made a strong operational recovery following the disruption caused by two earthquakes in September. Further details on our 2017 financial performance are covered in the operational review on pages 24 to 30.

Shareholder returns

Subject to shareholder approval, a final dividend of 7.8 pence per share will be payable, bringing the full-year dividend to 12.4 pence per share (2016: 12.4 pence per share). The full-year dividend of 12.4 pence per share represents a total payment equivalent to approximately 61.3% of post-tax earnings from continuing operations for 2017. As a percentage of pre-exceptional profit after tax from continuing operations for 2017, it equates to a pay-out ratio of approximately 36.8%, which is modestly above our target pay-out rate of 35%. We aim to run and develop high-return businesses providing good returns to shareholders while maintaining a strong financial profile, more of which is detailed in the financial review on pages 31 to 35.

Our Board and people

As reported in my prior year statement, we appointed Justin Lockwood to the Board as Chief Financial Officer in February 2017. Justin's knowledge of the business and financial expertise have enabled him to take on the challenges of this role effectively. We also continue our search for a Senior Independent Director to replace Tony Hales who has served as a director on our Board for more than 10 years. I am pleased to report that Tony has agreed to continue in his role until a suitable replacement is appointed and, as such, will put himself forward for re-election at our forthcoming AGM. Jayne Almond will step down as non-executive director of IPF with effect from the conclusion of our 2018 AGM. The Board would like to thank Jayne for her service and valuable contribution to the Group.

This year, our Board visited our home credit and digital operations in Poland where we heard first-hand how these businesses operate to deliver value to our customers, the opportunities they are seeking to capture and the risks they face. From my discussions with our teams, it is clear that my colleagues take pride in the customers they serve and the values that we uphold. We have strong leaders and talented people who are delivering on our strategy and, on behalf of the Board, I would like to thank our team for their contribution in delivering the results set out in this annual report.

Sustainability and ethics

Making a contribution to society is important to us and our stakeholder engagement programmes help our businesses play a positive role in their communities. We are an essential part of a competitive and well-functioning credit market, providing underserved consumers with an entry point to mainstream consumer finance in a transparent and responsible way. On page 17, CEO Gerard Ryan explains that a sustainable lending business must have a strong ethical culture embedded throughout the business, and this is fully endorsed by our Board. This year, we launched a new code of ethics and 98% of employees and 91% of agents completed the annual ethics e-learning programme.

Outlook

We will continue to focus on optimising our European home credit operations to generate further returns, which will support investment in growing Mexico home credit and IPF Digital, and deliver enhanced shareholder value. The regulatory and competitive landscape is likely to remain challenging. In particular, both we and you, as our shareholders, are keen to hear an update from the Polish Ministry of Justice on its proposed reduction to the existing non-interest pricing cap in Poland. We will continue to work to encourage a more positive outcome on this matter. We have a clear plan and remain confident that we will continue to manage the business to deliver further sustainable growth and returns.



Dan O'Connor
Chairman

A leading international provider of consumer credit

We offer a range of unsecured consumer finance channels, products and brands to meet the specific needs and financial circumstances of our customers. The increase in mobile technology has led our channel expansion into digital loans and resulted in a larger target segment of customers that we are now able to serve.

Home credit



Our home credit channel serves customers who appreciate the unique qualities of our face-to-face at-home service provided by our agents.

Northern Europe: Poland and the Czech Republic

Southern Europe: Hungary and Romania

Mexico

Products

- Home credit cash loans with agent service
- Money transfer loans direct to bank account
- Home, medical and life insurances
- Micro-business loans
- Provident-branded digital loans
- Weekly and monthly repayments
- Loan terms from 12 weeks to around 3 years
- Typical loan value £500

£721.7M

Revenue

2.1M

Customers

IPF Digital



Our digital channel serves customers who prefer to take out credit online and repay remotely.

Established markets: Finland, Estonia, Lithuania and Latvia

New markets: Poland, Spain, Mexico and Australia

Products

- Instalment loans
- Revolving credit facility
- Monthly repayments
- Instalment loan terms up to 4 years
- Average customer outstanding balance £800
- Customers served online and through selected distribution partners

£104.1M

Revenue

226,000

Customers

**Home credit**

Northern Europe

737,000

Customers

£508.6M

Credit issued

Southern Europe

499,000

Customers

£288.4M

Credit issued

Mexico

828,000

Customers

£273.7M

Credit issued

Digital

Established markets

141,000

Customers

£138.7M

Credit issued

New markets

85,000

Customers

£92.1M

Credit issued

Enhancing the lives of our customers

quickly and efficiently

We know our customers well and understand their specific needs and financial circumstances. Our customers want to borrow small amounts to pay for everyday items and repay in manageable, affordable instalments. This responsible approach runs parallel with our robust credit policies ensuring our customers are able to manage their repayments and do not become over-indebted.



Home credit

Home credit customers

Personal relationships with our customers

Many of our home credit customers have low, often fluctuating incomes and a limited credit history. This means some would not qualify for credit from a mainstream lender or an online loan and, as such, are suited to home credit. They value the personal service provided by agents as well as the convenience and speed of our offering. High levels of advocacy for our products and services show we are a trusted and valued business delivering high levels of customer satisfaction. Our home credit business model has operated successfully for more than 130 years and remains a relevant and important component of the consumer finance market.

Typical customer features

- Low, fluctuating income
- Limited credit history
- Prefer agent service
- Need to manage finances carefully
- Seek flexibility

How customers use their loans

- Unexpected expenses
- Healthcare
- Household goods
- Education
- Family celebrations



“Over the years, Provident has helped me buy lots of things for my house including a washing machine, my bed, a stove and, most importantly, school books and uniforms for my children.”

Home credit customer, Mexico



Digital

Digital customers

Fast, efficient and personalised service anytime

The increasing use of mobile services means a growing number of consumers in our target segment are choosing to borrow online. Our target customers earn low to middle incomes and have high smartphone adoption levels. They already have a credit history that may allow them to qualify for an online loan. We are able to meet their needs through our digital offering, which has operated successfully for over ten years and offers a significant strategic opportunity to grow the number of customers we serve with instalment loans and credit line facilities.

Typical customer features

- Low to middle income
- Like to shop and borrow online
- High smartphone ownership
- Existing credit history
- Seek flexibility

How customers use their loans

- Holidays
- Home improvements
- Healthcare
- Household goods

"I want the freedom of spending money when I want, where I want and how I want."

IPF Digital customer, Poland

Creating value responsibly

Our business model offers distinct but complementary home credit and digital channels through which we offer a range of products that meet the everyday needs of our customers. Our business is an essential part of a competitive and well-functioning credit market that promotes economic and social development by providing underserved consumers with consumer finance.

Our business model generates good, sustainable returns for shareholders. We are focused on serving our customers to a high standard and, as a leading non-banking financial institution in many of our markets, we are a respected financial brand and award-winning employer.

Our values underpin our business model, and we operate and make decisions consistent with being responsible, respectful and straightforward. Credit risk is managed responsibly using robust credit scoring systems and credit bureaux, and in our home credit businesses these systems are supported by the critical judgement of agents. We have a 'low and grow' strategy, starting new customers on smaller, shorter-term loans and only offer more credit once their creditworthiness is proven. High standards of governance are essential to the sustainability of our business and we actively identify, manage and aim to mitigate the principal risks we face.

Our profit is generated from lending responsibly while managing the business efficiently. Our home credit businesses generate a high proportion of Group revenue primarily through the agent-service model. While IPF Digital delivers a smaller contribution currently, we believe it offers a significant future growth opportunity driven by increased demand for online lending and the ability to operate within a regulatory environment where the trend is for lower-cost products.

Key resources

Relationships

Open and straightforward engagement with our stakeholders is critical, particularly the relationships with our customers to ensure they receive the products and services they want.

People


We resource the business with skilled, motivated and knowledgeable employees and agents who implement our strategy and ensure our customers are well served.


Technology


Technology is fundamental to driving efficiency through agent mobile technology, supporting digital lending growth and making effective credit decisions.

Financial

We manage financial resources effectively to sustain our business and generate good returns for our investors.

 [Read more about our multi-channel strategy](#)
on pages 12-13

 [Read more about our principal risks](#)
on pages 36-43

 [Read more about our stakeholder engagement](#)
on pages 10-11

Contributing to the wider economy



Creating value for our stakeholders

Customers

Employees and agents

Regulators and legislators

Communities

Shareholders and investors

We help social and economic mobility among consumers and make a valuable contribution to the markets we serve through taxes, employment, and spending on goods and services.

Responding to our stakeholders' needs

Our key stakeholders are those who impact our strategy materially, or are impacted by it directly. We listen to our stakeholders regularly to help us define our strategy and ensure we continue to deliver relevant products that meet our customers' needs.



Our stakeholders

Why we engage

Customers

Understanding our customers and their changing needs and behaviours enables us to provide relevant credit products and services responsibly, retain quality customers and attract new ones.

Employees and agents

It is important to engage people who have the skills and knowledge to implement our strategy and ensure our customers are served well. Engaged people are important ambassadors for our business.

Key areas of interest


- Affordability and price
- Flexible repayments
- Convenience
- A good customer experience
- Relevant channels and products
- Trusted and responsible provider


- Professional development and career progression
- Recognition and fair reward
- Transparent and timely communications
- Business ethics
- Responsible lending and a good reputation
- Safe and productive working environment

How we engage and respond

- Responsible, affordable credit products, channels and insurance
- Forbearance flexibility
- Agent-served or online customer journey
- Customer websites and social media
- Customer service centres
- Customer surveys

- Annual conferences and business updates
- Regular two-way communication
- Recognition and reward programmes
- Training and development including ethics training

 [Read more about our customers](#) on pages 6-7

 [Read more about diversity at IPF](#) on page 23

Sustainability strategy

Our sustainability strategy is framed around five material issues – responsible lending, business ethics, people, community and environment.



For more on our sustainability strategy go online to www.ipfin.co.uk



Regulators and legislators

We engage with regulators to help influence regulation that delivers a positive outcome for consumers and business. Regulation with unintended consequences can impact our ability to serve our customer segment.

- Compliance with EU and national regulations
- Control and supervision
- Pricing and promotions
- Responsible lending and affordability
- Business ethics
- Taxation
- Employment

- Ongoing dialogue
- Membership of sector associations
- Participation in public consultations
- Engagement on draft regulation
- External advisor network
- Partnerships with non-governmental organisations (NGOs)

Read more about the regulatory landscape on page 15

Communities

We engage with, and are keen to deliver value to, the communities where our customers, employees and agents live. We aim to maximise financial literacy and improve our reputation. Consumers who are well informed are able to make more responsible financial decisions.

- Access to responsible credit
- Employment
- Financial literacy programmes
- Community support programmes

- Agent visits to customers
- Financial literacy programmes and surveys
- Partnerships with established and credible NGOs
- Financial well-being surveys
- Social welfare investment
- Employee and agent volunteering

Read more about community investment on page 86

Shareholders and investors

As a publicly listed company, we are required to provide fair, balanced and understandable information to enable investors to fully understand our business so that they may make an informed investment decision.

- Strategy and performance
- Risk management and corporate governance
- Outlook
- Executive remuneration
- Dividend policy
- Access to management

- Ongoing dialogue and meetings
- Annual General Meeting
- Bi-annual reporting and quarterly trading updates
- Annual reports
- Investor roadshows and conferences
- Corporate website

Read more about our business model on pages 8-9


Our multi-channel strategy

Our success depends on serving our customers well and retaining their custom. Everything we do revolves around the relationships we have with our customers – from the personal relationships our agents have with them in their home, to the service we provide remotely to our digital customers.

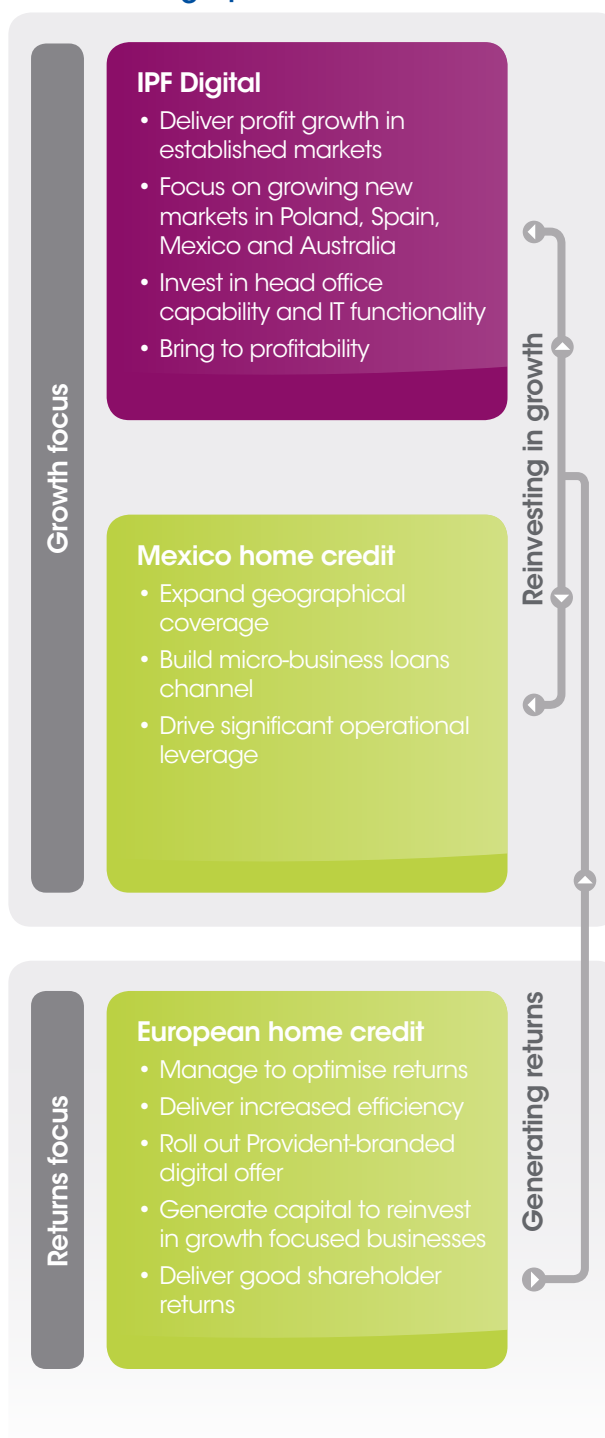
We made good progress against our strategy, which is focused on delivering sustainable growth, enhancing profitability and making efficient use of capital. It has been defined in response to:

- strong demand from consumers for unsecured credit, particularly via digital loans;
- increased competition from digital lenders and retail banks;
- growing preference for digital options with the rise of smartphone and internet penetration; and
- increased regulatory oversight focused on price and affordability, which is driving lower margins and restricting issue values.

Our operations are at different stages of maturity and our strategy segments them into 'growth' and 'returns' focused businesses. There are significant growth opportunities in our IPF Digital and Mexico home credit businesses supported by investment of capital generated by our European home credit businesses. To deliver this strategy, we continue to modernise the business through investment in technology and developing our people and their capabilities.

 **Read more on our operational highlights in the CEO review**
on pages 14-17

Strategic priorities



2017 performance

- Strong top-line growth
- Established markets delivered good profit growth
- New markets grew strongly following increased investment

- Good credit issued growth
- Strong operational recovery post-earthquakes
- Impairment elevated
- Further geographic expansion
- Micro-business channel grew well

- Very good portfolio quality
- Profit broadly flat
- Lower profit in Northern Europe due to regulatory and competitive pressures
- Good operational performance and debt sales drove profit growth in Southern Europe
- Effective collect-out in Slovakia and Lithuania

Strategic KPIs

226,000

Customers

41.2%

Impairment %
revenue

44%

Credit
issued growth

68%

Revenue growth

62.0%

Cost-income ratio

(£11.7M)

Loss before tax

2018 focus

- Provide superior customer experience through innovation
- Build scale and leverage data
- Demonstrate ability to make a return

828,000

Customers

34.8%

Impairment %
revenue

13%

Credit
issued growth

40.4%

Cost-income ratio

12%

Revenue growth

£14.7M

Profit before tax

- Expand geographical footprint
- Build micro-business loans channel
- Improve operational efficiency and customer penetration rates in selected longer-established branches

1.2M

Customers

18.1%

Impairment %
revenue

(3%)

Credit
issued growth

40.8%

Cost-income ratio


(8%)

Revenue growth

£114.3M

Profit before tax

- Provide a high-quality service to customers and optimise operations for returns
- Protect the business model
- Leverage the Provident brand for digital

 Read more on our 2017 operational performance on pages 24-30

Sustainability priorities

Deliver
responsible
lending

Embed code
of ethics

Engage
employees

Principal risks

Regulatory

Competition
and product
proposition

Taxation

Technology
and change
management

People

Business
continuity and
information
security

Reputation


World economic
environment

Safety

Credit

Funding,
market and
counterparty

 Read more on our sustainability objectives at www.ipfin.co.uk

 Read more on our principal risks and uncertainties on pages 36-43

Delivering on our multi-channel strategy

CEO, Gerard Ryan, discusses the operating landscape and progress made on delivering our multi-channel strategy.

"We delivered a solid operational and financial performance and made progress on our multi-channel strategy."

Q. International Personal Finance has changed in the six years you have led the Group. What does the business stand for today?

In so many ways, our business has changed enormously but in some very fundamental ways it remains entirely consistent with the business I joined in 2012. Back then, we were a provider of weekly cash loans delivered through agents; our competitors were mainly other home credit operators and the regulatory outlook was reasonably foreseeable.

Today, we face competition from multiple digital lenders and banks are taking a keen interest in our best customers. The regulatory landscape is almost unrecognisable in terms of the volume of new legislation as well as the fact that the key instigators of regulatory change are politicians as well as regulators. In response to these changes, we have adapted our offering so that we continue to give our customers the best service we can while protecting our business model. We now offer an array of products (weekly and monthly instalment cash loans, digital instalment loans, lines of credit, insurance services and small business loans) through multiple channels (agents, call centres, digital and distribution partners).

Notwithstanding all of this change, our vision and how we treat our customers remain true to our values. We aim to make a difference in the lives of our customers by providing simple and personalised financial solutions in a responsible, respectful and straightforward way.

International Personal Finance

Q. What are the key drivers of your strategy?

Fundamentally, we have always been in the business of providing finance to customers who could be deemed to be underbanked or underserved. We have adapted our strategy to respond primarily to four external forces: strong demand for unsecured credit; changing customer behaviour with an increasing preference for digital delivery; increased competition leading to faster service from application to loan disbursement; and significant regulatory intervention leading to lower prices and restricted access to credit for large numbers of consumers. With the addition of our new products and channels, we are now broadening our appeal to customers and offering more access points, longer and larger loans, and more competitive rates.

Our strategy aims to build a sustainable and growing business that delivers increasing returns to shareholders. We now segment our businesses into 'growth' and 'returns' focused operations. IPF Digital and Mexico home credit are growth businesses and our European home credit operations are in the returns category. Our European home credit businesses generate the returns to invest in our growth businesses as well as delivering progressive returns to our shareholders.

Q. Recent years have been characterised by regulatory change. How did it impact IPF in 2017?

We had a difficult start to 2017 from a regulatory and tax perspective. The publication by the Polish Ministry of Justice in December 2016 of a proposal to further reduce the cap on non-interest charges on consumer loans unsettled the Polish consumer finance market.

A new cap had been in place for less than a year and appeared to be working well, so it was a surprise to the market when further changes were proposed without warning. There has since been no update from the Ministry of Justice on this matter. Throughout 2017, we worked with our advisors and other key stakeholders in Poland to try to arrive at a sensible outcome that provides appropriate protection for consumers and, at the same time, promotes a vibrant and competitive marketplace. This work is still ongoing.

As previously reported, our home credit business in Poland appealed decisions received in January 2017 from the Polish Tax Chamber (the upper tier of the Polish tax authority) with respect to its 2008 and 2009 financial years. At the time of our original announcement, we said that we intended to initiate a process with the UK tax authority aimed at ensuring that the intra-group arrangement, which is being challenged, is taxed in accordance with international tax principles. This action resulted in the Polish court staying the hearings of the 2008 and 2009 appeals pending resolution of this process. Also in Poland, changes to corporate income tax legislation came into force on 1 January 2018 which has resulted in an exceptional one-off deferred tax charge of £30 million in 2017. Further information on these tax matters is included in the financial review on pages 31 to 35.

Also in January 2017, more stringent creditworthiness assessment rules were introduced in Romania which reduced the number of customers we were allowed to serve. While we were adapting our business to cope with these changes, new rules were introduced in the final few months of 2017 which have since resulted in our business being supervised by the National Bank of Romania for the first time.

"We have the ability to offer choices from traditional home credit loans delivered by agents through to a fully digital line of credit."

This is likely to lead to a further tightening of credit criteria and a reduction in the volume of loans we are allowed to provide to customers in that market.

We operate within price cap environments in all our European markets with the exception of the Czech Republic, Romania and Spain, and we expect pricing regulations to be implemented in these markets at some point in the future. A proposal to implement an APR cap of 18% for existing and new consumer lending is being debated in the Romanian Parliament and we are contributing to this discussion. There have been, and continue to be, numerous regulatory challenges to our business, but we have a proven track record of adapting to regulatory change and I believe we will continue to do so.

Q. In light of these regulatory challenges, how are you making your business more resilient?

I'd like to emphasise we will always adapt our business to be fully compliant with local regulation, no matter what regulatory change is introduced. A key part of our strategy is that our business should form an essential part of a well-functioning and competitive consumer finance market. To perform that role effectively, we aim to ensure regulators better understand the part we play in society and demonstrate how we protect our customer segment from illegal lenders and the excesses of the 'grey' market, while also providing many of these customers with their first step towards creating a positive credit history that will benefit them in the future.

We also recognise it is politicians as well as regulators who are now likely to instigate regulatory change in many of our markets. As a result, we have developed a programme of increased engagement with those who are likely to influence how business is conducted and we now work more effectively through local trade bodies to help put the case forward for sensible and well thought through regulation.

Internally, we are also modernising our business to make it more resilient, and new products and channels play a key role in this. We are using technology to make customer interaction with our business easier and more appealing. These investments include handheld mobile technology for agents through to seamless digital processing from credit application to loan repayment.

Q. How are you differentiating the business in a highly competitive landscape?

Our business is unique in that we offer choices from traditional home credit loans delivered by agents through to a fully digital line of credit via IPF Digital. For customers who may not have a strong enough credit profile for a digital offering, we can offer a hybrid solution whereby they meet an agent for the initial assessment but then make subsequent repayments via their bank.

There are significant differences between our home credit and digital business models. I am aware that many of our stakeholders view the latter as having few, if any, barriers to entry, whereas the home credit business is deemed to be very difficult to replicate. While there is some truth to this, and we have seen an explosion in the number of digital providers, to be successful requires experienced leadership, well-developed scorecards, the right products, trusted brands and an excellent customer journey. Our digital business, having been in existence for more than ten years, meets all of these criteria and its results are a clear indicator that we are on the right path to build a large and complementary business to our home credit operation.

Q. What is the global economic outlook for your business?

We saw reasonably stable macroeconomic conditions in all of our markets in 2017. In many of our European markets there were record levels of employment and good GDP growth. While the Mexican economy had a more difficult time, driven by uncertainty over its trading relationship with the US and the impact of relatively subdued oil prices, it still continued to grow.

As we look to 2018 and beyond, current indicators suggest that we should expect our markets to deliver positive GDP growth, low but increasing inflation and subdued interest rates.

Q. How would you evaluate performance in 2017?

We delivered a solid financial and operational performance in 2017 and profit before tax increased to £105.6 million.

We generated an increase in like-for-like profit before tax of £5.3 million primarily as a result of improved profitability delivered by IPF Digital's established markets. Overall, like-for-like profit in home credit was broadly flat reflecting an £11.4 million reduction in our ongoing businesses offset largely by an £11.1 million year-on-year increase in Slovakia and Lithuania arising from lower costs of closure. Stronger FX rates resulted in an £11.3 million positive impact which was offset partially by incremental new business investment in IPF Digital of £7.0 million.

We delivered a 6% increase in credit issued as a result of strong growth in our Mexico home credit and IPF Digital businesses, and this resulted in growth in average net receivables and revenue of 7% and 1% respectively. We managed credit quality effectively and impairment as a percentage of revenue at 24.4% was slightly below our target range of 25% to 30%. The compression of revenue yields, and our planned investments in driving growth and efficiency, resulted in a slight increase in our cost-income ratio, up 0.5 ppts to 45.8%. Full details of our operational performance are covered on pages 24 to 30.

"We are an essential part of a competitive and well-functioning credit market."

Q. What were the operational highlights in 2017?

European home credit businesses

We are improving the sustainability of our European home credit businesses by creating more modern, efficient and higher credit quality operations that provide a good service to customers, and continue to generate the cash and capital to fund growth opportunities and progressive returns to shareholders. We have done this in response to the regulatory and competitive market conditions in which we operate in Europe by offering customers a broader choice of more competitively priced products, and improving the efficiency of our operations through investment in technology. We continued to roll out our agent mobile technology which will improve the customer experience and make the role of the agent more efficient. At the end of 2017, all agents in Hungary and the Czech Republic were using the technology and the implementation in Poland is expected to be completed in the first half of 2018. I am pleased to say there has been no significant operational disruption as a result of these changes and agent feedback is supportive. To enable us to serve more customers with digital offerings, we are leveraging our Provident brand with a Provident digital offering in Poland. This has been well received and around 15,000 customers are being served through this channel. We plan to introduce this offering in the Czech Republic in the first half of 2018. To support the changes we are making, we simplified our business structure and created a Northern Europe region comprising our Polish and Czech businesses to complement the existing Southern Europe region of Hungary and Romania. This is enabling our teams to better share best practice and is expected to support the delivery of cost efficiencies over the longer-term.

Mexico home credit

Our strategy in Mexico is to expand our geographic footprint, build our micro-business channel, and improve operational efficiency and customer penetration rates in selected longer-established branches. At the start of 2017, we made a commitment to maintain the momentum we had generated in the second half of 2016. Our leadership team delivered on this in the first half and it would have been maintained in Q3 had it not been for the two earthquakes that hit Mexico in September. Inevitably, this impacted our agents, employees and customers and, consequently, we saw a reversal of growth in Q3 and collections deteriorated. In times such as these, it is important to recognise the human impact of such events and our focus was on ensuring that we took care of our people and customers. We activated our business disruption plan and I am pleased to say that we returned to more normal trading towards the second half of November.

We opened six branches in the first half of 2017 which, together with those branches opened in 2016, now serve around 55,000 customers and we plan to open a similar number of branches in 2018. We also took the opportunity to review our less profitable branches and decided to close two branches in Monterrey. Consequently, our results include a reduction of 16,000 customers and a charge of £1.9 million for the write down of the associated receivables portfolio and closure costs. Our micro-business channel, now available in the majority of our branches in Mexico, is growing well with around 16,000 customers, and we expect further expansion in 2018.

IPF Digital

Our digital business has existed for more than a decade and has a leadership team that has built up considerable experience in product and channel development, scorecard building, providing a great customer experience, and creating brands that resonate with consumers.

Growing our digital lending business and demonstrating that the IPF Digital business model can deliver a good financial return are key strategic priorities for the Group, and we made good progress against both of these objectives. Focusing on providing a superior customer experience through product and process innovation helped deliver strong demand for our credit line product. In many of our markets this line of credit facility has replaced instalment loans as our core customer offering. In our new markets of Poland, Spain, Mexico and Australia, we continued to refine our credit scorecards and delivered strong receivables growth as well as improved credit quality and cost efficiency. In our established markets of Finland and the Baltics, we delivered further credit issued growth through smarter, risk-based pricing strategies, enhanced customer relationship management (CRM) activities and increased penetration of our credit line product.

Q. Would it not make more sense to focus on growing home credit and not diversify into digital?

For some of our stakeholders there would be a comfort factor in sticking to what has proved to be a very successful business model based around the delivery of loans via an agent. The truth, however, is that neither our customers nor our competitors stand still and we should not either.

Customer behaviour is changing and there is a growing preference for digital credit. In addition, we have some customers who have been with us for several years who would be capable of obtaining a loan remotely. If consumers have not dealt with us before, they may choose to obtain a loan from our purely digital brands. Alternatively, if they are an existing or past customer of Provident, they may choose to apply for credit through our Provident-branded digital channel. Either way, we aim to offer them a choice of channel and product that is most suitable for them.

Q. How does stakeholder engagement impact your strategy?

Consumer finance is an industry that impacts most people and, rightly so, attracts scrutiny. It is critical to have a positive dialogue with, and to listen carefully to, our key stakeholders, principally our customers, employees, agents, regulators, politicians and shareholders. Our aim is to ensure we design and provide products that our customers want, are appropriately priced and that, if customers find themselves in difficulty with repayments, we are understanding and accommodating to their changed circumstances. All of our stakeholders expect us to act in an ethical and transparent way and this is at the heart of how we conduct our business.

Q. How do you ensure your people stay engaged with your ethics programme?

I'm sure that most CEOs would say that ethics are very important for their business, but, in our case, we would not have a sustainable business without a very clear and strong ethical culture throughout the organisation. We have mandatory ethics e-learning programmes for both employees and agents and I deliver our annual international ethics week with the assistance of our senior leadership team. Many of our customers continue to have limited disposable incomes so it is critically important that the way we incentivise our people does not promote the provision of credit to consumers who are already over indebted or who do not have the means to repay the loan. For that reason, our incentives are weighted to promote the right behaviours and not simply to generate new loans.

Q. How do you ensure diversity in the workplace?

We value the significant benefits that having a diverse international team brings. In 2017, we strengthened this further by introducing global functional and regional leadership structures which will encourage further focus on diversity in all its forms as people work more closely together. From a gender diversity perspective, we will focus upon building our people strategies further to ensure that we attract, retain and develop people on merit. Our global people, organisation and planning process ensures that our talent rises in a fair, diverse and transparent way, and in accordance with our values and ethics.



Q. What are your aspirations for the Group in 2018?

As far as our core purpose is concerned, I see very little if any change as we go into 2018. We are a business that provides credit in a responsible, respectful and straightforward way to those who are underbanked and underserved. We are an essential part of a competitive and well-functioning credit market and, by acting in an ethical and transparent way, we can help to improve how the overall segment is governed.

In terms of business performance, we are focused on serving our customers responsibly within a regulatory and competitive landscape that we expect will remain challenging. We will continue to improve the sustainability of our European home credit operations by creating more modern, efficient and higher credit quality operations that provide a good service to customers, and continue to generate the cash and capital to fund growth opportunities and progressive returns to shareholders. We expect IPF Digital to deliver further strong growth and an improved performance driven by increased scale and enhancements in financial metrics as our new markets grow and mature. In Mexico, we expect to return to customer growth, expand our geographic footprint and micro-business channel, and deliver improved operational efficiency in our established branches.

Making good progress on our strategy

Our goals to serve our customers well and deliver shareholder value drive our strategy. We assess our performance against the following key performance indicators, each of which is linked to our long-term strategy. We use these KPIs to monitor the performance of the business to ensure we deliver value for our stakeholders.

-  **For our multi-channel strategy**
see pages 12-13
-  **For alternative performance measures**
see pages 133-136

Customer numbers ('000)

2,290

2015

2,663

2016

2,521

2017

2,290

Performance

The total number of customers across the Group contracted by 9% in 2017 driven primarily by regulatory and competitive pressures in our European home credit markets.

Why we measure it

Customer numbers demonstrate our scale in our individual markets. While growth of our customer base is critically important to our continued success, we will reject potential new customers, and not seek to retain existing customers who contravene our credit policies or have a poor repayment record.

Customer retention (%)

59.7%

70.6%

Home credit

IPF Digital

2015

57.1%

2016

59.0%

70.8%

2017

59.7%

70.6%

Performance

The number of customers who have three or more loans with our business. Customer retention in both home credit and IPF Digital was maintained in 2017.

Why we measure it

Our ability to retain customers is central to achieving our growth ambitions and is a key indicator of the quality of our products and service. We do not retain customers who have a poor payment history as it can create a continuing impairment risk and runs counter to our responsible lending commitments.

Employee and agent retention (%)

61.7%

75.2%

Agent

Employee

2015

65.6%

2015

74.5%

2016

65.0%

73.7%

2017

61.7%

75.2%

Performance

The proportion of employees and agents who have worked with us for more than 12 months. Employee retention improved slightly on 2016. Agent retention reduced as a result of changes to criteria required to offer financial services in the Czech Republic together with contraction in that business, and new employment regulations in Romania.

Why we measure it

Experienced people help us achieve and sustain strong customer relationships and deliver a high-quality service. Good retention also helps reduce recruitment and training costs, enabling more investment in people development.

Average net receivables (£M)

£993.9M



Performance

The average amounts receivable from customers translated at the average monthly actual exchange rate increased by 7% in 2017 principally as a result of strong growth in Mexico home credit and IPF Digital.

Why we measure it

This measure allows stakeholders to compare changes in amounts receivable from customers on a consistent basis with revenue growth because it is a key driver of revenue growth.

Revenue (£M)

£825.8M



Performance

Revenue, which is income generated from customer receivables, increased by 1% driven by our customer retention strategy to serve customers with longer-term, lower-yielding products and the impact of the lower total cost of credit rate cap in Poland.

Why we measure it

Revenue is one of the key drivers of overall performance outcomes in the income statement.

Impairment as a percentage of revenue (%)

24.4%



Performance

Impairment is the amount charged as a cost to the income statement as a result of customers defaulting on contractual loan payments. Credit quality remains good and Group impairment as a percentage of revenue at 24.4% is slightly below our target range of 25% to 30%.

Why we measure it

Profitability is maximised by optimising the balance between growth and credit quality.

Cost-income ratio (%)

45.8%



Performance

The direct expenses of running the business as a percentage of revenue, excluding agents' commission. The cost-income ratio increased in 2017 reflecting investment in growth and efficiency together with compression of revenue yields.

Why we measure it

The cost-income ratio is useful for comparing performance across markets.

Return on assets (ROA) (%)

11.5%



Performance

ROA is measured as profit before interest and exceptional items, after pre-exceptional tax, and divided by average net receivables. Group ROA reduced by 0.8 ppts to 11.5% due to lower profits in European home credit and a higher effective tax rate.

Why we measure it

ROA is a good measure of the financial performance of our businesses, showing the ongoing return on the total equity and debt capital invested in the average net receivables of our operating segments and the Group.

1. Adjusted for exceptional tax charge

A strong international business with good returns and growth opportunities

We are a profitable, well-funded home credit and digital lending business with a good track record of serving customers profitably and responsibly, while delivering attractive, sustainable returns to our shareholders. We have achieved this even during periods of macroeconomic and financial market volatility and periods of competitive and regulatory challenges. We operate in a dynamic consumer finance market and have successfully expanded our offering to include digital loans, which has resulted in us being able to serve a larger target segment of customers.


Responsible consumer finance

Customers

2.3M

Diversified channels, products and brands to meet customer needs

There is growing demand for unsecured, small-sum consumer credit and we focus on providing credit to customers who are largely underserved. We know our customers well and offer products that meet their specific needs. Our home credit business model has operated for over 130 years and proven resilient to economic downturns. Our digital lending business has operated successfully for more than a decade and we are making the most of future lending opportunities driven by technology and changing consumer behaviour.

 Read more in our CEO review on pages 14-17

Experienced team

Employee and agent retention (%)

61.7%*


agent retention

75.2%

employee retention

Broad range of financial services experience

We are committed to supporting the development and engagement of our people in order to grow an ethical and sustainable business. We have a highly experienced Board and management team with a combination of international home credit and digital lending expertise. We attract and retain experienced, high-performing individuals who understand our customers, our markets and the products we provide.


 Read more on our board and committees on pages 46-47

* including agents in Hungary and Romania who are employees to meet local regulatory requirements

Effective risk management

Experience of managing key risks including credit, regulation, competition and liquidity

We are proficient in managing key risks and have adapted our business and product offering to comply with consumer credit regulation and increased competition. Our decision-making is underpinned by our control framework and the processes we implement to identify and manage risks. This dynamic, well-developed system is integrated at all levels of the Group and aligned to our strategic objectives to deliver long-term growth and protect our people, assets and reputation.

 Read more on our principal risks and uncertainties on pages 36-43

Strong financial profile

47.0%

equity to receivables

£496.9M

net assets

£189.3M

headroom on undrawn debt facilities

Robust balance sheet and strong funding position

We are committed to maintaining a strong financial profile with a robust balance sheet and competitive funding position. The equity to receivables ratio balances good returns with a resilient capital position. We have a diversified debt portfolio at competitive cost with appropriate terms, with a mix of bonds and bank facilities, and a balanced maturity profile.

 Read more in our financial review on pages 31-35

Focused business and financial strategy

11.5%¹

return on assets


15.7%¹

return on equity

1. Adjusted for exceptional tax charge

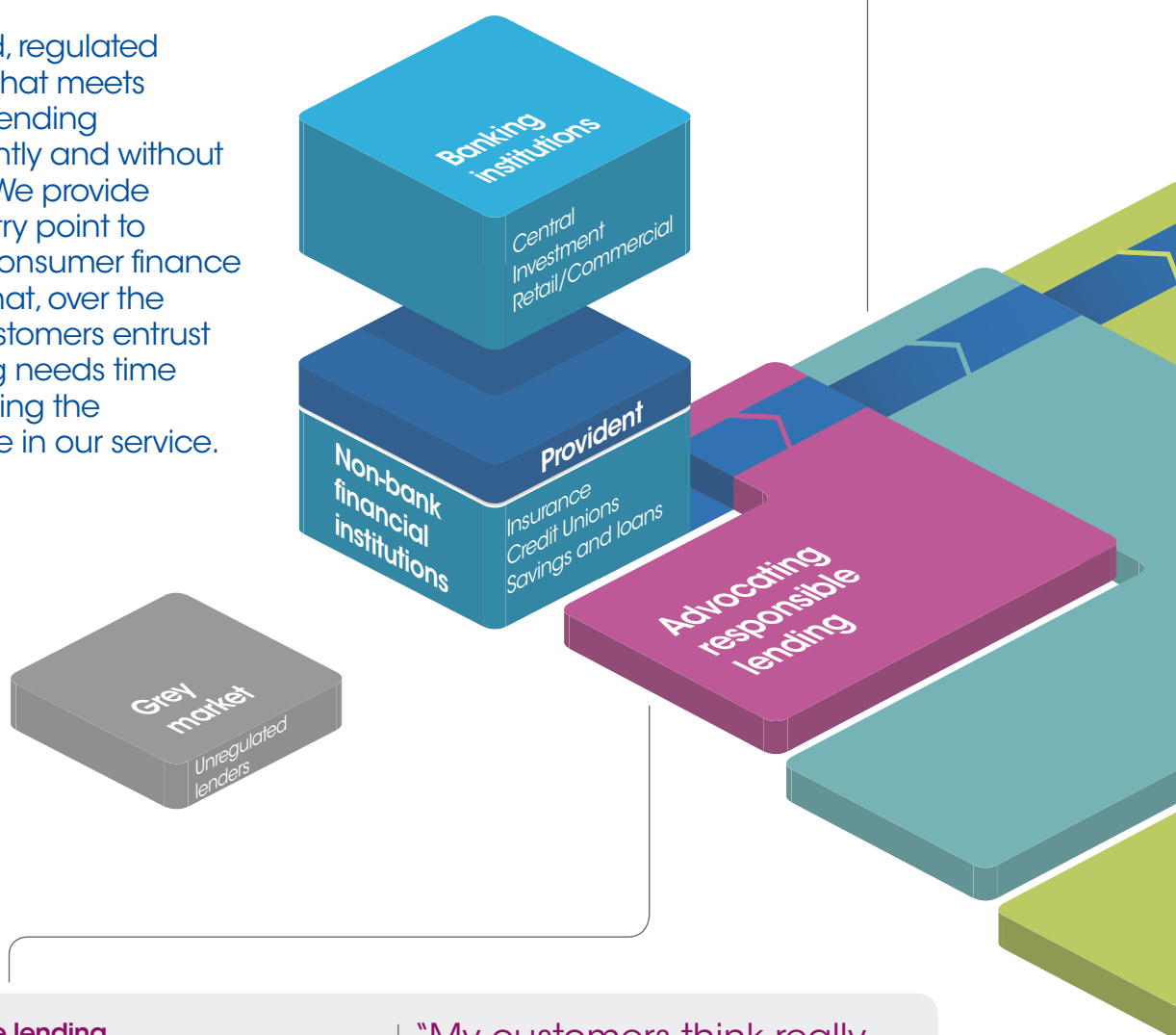
High-return businesses and maintain strong financial profile

Our business and financial strategy supports the significant future growth and returns opportunities we see for our businesses. Our European home credit businesses are highly cash and capital generative. They are managed to provide a high level of service to our customers and to optimise returns, which are used to fund growth in our IPF Digital and Mexico home credit businesses as well as provide progressive returns to our shareholders.

 Read more on our financial review on pages 31-35

Living our social purpose

We are an established, regulated and ethical business that meets customers' needs by lending responsibly, transparently and without any hidden charges. We provide customers with an entry point to access mainstream consumer finance and we have found that, over the years, many of our customers entrust us with their borrowing needs time after time, demonstrating the confidence they place in our service.



Advocating responsible lending

Our loans are granted using robust application and behavioural scoring systems supported by credit bureaux to ensure our loans are affordable.

Our commitment to responsible lending also extends to our corporate responsibility programmes where our focus on financial literacy helps our customer segment make more informed borrowing decisions.

59.7%

Home credit
customer retention

70.6%

IPF Digital
customer retention

"My customers think really carefully before they take out a loan. I know this because I speak with every one of them before they sign the contract."

Home credit agent, Poland

Protecting consumers

By providing regulated credit products, we protect our customers from illegal lenders and the unregulated excesses of the 'grey' market. All our lending is unsecured and we don't ask our customers to pledge assets, such as a car or property, as collateral in the event that they default on their repayments.

Supporting people who are not well served by other mainstream credit providers or excluded altogether comes with higher risks and we understand that some of our home credit customers will take a little bit longer than contractually obliged or won't fully repay their loans, and so we price our loans to take this into account.

98%

employees completed ethics training

91%

agents completed ethics training*

"I turn to Provident because I trust them. My agent clearly explains the terms of my loan including the total amount I have to repay and my right to cancel."

Home credit customer, Mexico

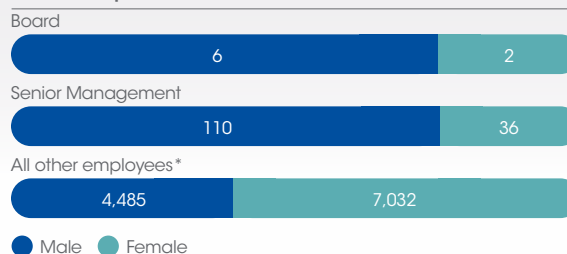
Human rights

We are committed to human rights and make an annual communication on progress through our membership of the United Nations Global Compact Network UK. We are committed to opposing slavery and human trafficking in our direct operations and in the indirect operations of our supply chain. Our statement on the Modern Slavery Act 2015 can be found on our website at www.ipfin.co.uk.

Diversity

We are committed to diversity and take steps to ensure that our business processes encourage recruitment, selection and reward based purely on merit.

Gender split at 31 December 2017



Contributing to the wider economy

We are an active corporate citizen with more than 28,600 employees and agents contributing to their wider economies through taxes and spending on goods and services. Total tax contribution in 2017 was over £220 million, comprising £140 million of taxes paid (representing a cost to the Group) and £80 million of taxes collected on behalf of governments such as payroll taxes and employees' social security contributions. We are also committed to investing in our local communities supporting financial literacy, local development and enterprise initiatives.

£220M

total taxes contribution in 2017

5,000

hours volunteered by employees supporting community initiatives

"We have worked with Provident in Mexico for two years and during this time they have supported financial education programmes that have helped around 50,000 young adults gain a better understanding of how consumer finance works."

NEMI, social development NGO partner, Mexico

* including agents in Hungary and Romania who are employees to meet local regulatory requirements

Group performance overview

We delivered a solid financial and operational performance in 2017 and profit before tax increased to £105.6 million. We generated an increase in like-for-like profit before tax of £5.3 million primarily as a result of improved profitability delivered by IPF Digital's established markets. Overall, like-for-like profit in home credit was broadly flat reflecting an £11.4 million reduction in our ongoing businesses offset largely by an £11.1 million year-on-year increase in Slovakia and Lithuania. Stronger FX rates resulted in an £11.3 million positive impact which was offset partially by incremental new business investment in IPF Digital of £7.0 million.

	2016 reported profit £M	Like-for-like profit movement £M	New business investment £M	Stronger FX rates £M	2017 reported profit £M
Home credit	120.2	0.3	–	12.3	132.2
Digital	(9.3)	5.6	(7.0)	(1.0)	(11.7)
Central costs	(14.9)	–	–	–	(14.9)
Profit before taxation from continuing operations	96.0	5.3	(7.0)	11.3	105.6

We delivered a 6% increase in credit issued as a result of strong growth in our Mexico home credit and IPF Digital businesses, and this resulted in growth in average net receivables and revenue of 7% and 1% respectively. We managed credit quality effectively and impairment as a percentage of revenue at 24.4% was slightly below our target range of 25% to 30%. The compression of revenue yields and our planned investments in driving growth and efficiency resulted in a slight increase in our cost-income ratio, up 0.5 ppts to 45.8%.

Home credit

Our home credit businesses delivered profit before tax of £132.2 million in 2017 which comprised £129.0 million from our ongoing businesses and £3.2 million from our home credit operations in Slovakia and Lithuania, which are being wound down. The increase in profit delivered by our ongoing home credit businesses reflects a reduction in like-for-like profit of £11.4 million before a £12.8 million benefit from stronger FX rates. The like-for-like profit growth in Slovakia and Lithuania was £11.1 million, after a loss in 2016 of £7.4 million, was driven by a strong collections performance together with a significantly lower cost base following the wind-down of these operations.

	2016 reported profit £M	Like-for-like profit movement £M	FX rates £M	2017 reported profit £M
Northern Europe	75.6	(24.9)	9.1	59.8
Southern Europe	40.3	11.3	2.9	54.5
Mexico	11.7	2.2	0.8	14.7
Ongoing home credit	127.6	(11.4)	12.8	129.0
Slovakia and Lithuania	(7.4)	11.1	(0.5)	3.2
Profit before taxation from continuing operations	120.2	(0.3)	12.3	132.2

Excluding Slovakia and Lithuania, the results for our ongoing home credit businesses are shown in the table below:

	2016 £M	2017 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	2,284	2,064	(220)	(9.6)	(9.6)
Credit issued	991.3	1,070.7	79.4	8.0	0.6
Average net receivables	758.5	833.9	75.4	9.9	2.1
Revenue	687.9	721.7	33.8	4.9	(2.4)
Impairment	(179.4)	(166.7)	12.7	7.1	13.5
Net revenue	508.5	555.0	46.5	9.1	1.5
Finance costs	(41.8)	(46.8)	(5.0)	(12.0)	(4.2)
Agents' commission	(82.0)	(85.5)	(3.5)	(4.3)	2.6
Other costs	(257.1)	(293.7)	(36.6)	(14.2)	(7.3)
Profit before taxation	127.6	129.0	1.4	1.1	

Slovakia and Lithuania

The collect-out of our portfolios in Slovakia and Lithuania was more effective than our original expectations and we reported a combined profit in 2017 of £3.2 million compared to a loss of £7.4 million in 2016. The result for 2017 is £2.2 million lower than we reported at the half year reflecting an increase in the expected costs of the liquidation of our Slovakia business following a delay in the surrender of our operating licence to the National Bank.

Discontinued operations

The sale of our home credit business in Bulgaria in June 2017 resulted in a one-off accounting charge of £5.7 million which, together with the trading loss of £2.7 million generated in 2017, has been accounted for as a discontinued operation in accordance with IFRS 5. The 2016 comparatives have been adjusted accordingly.

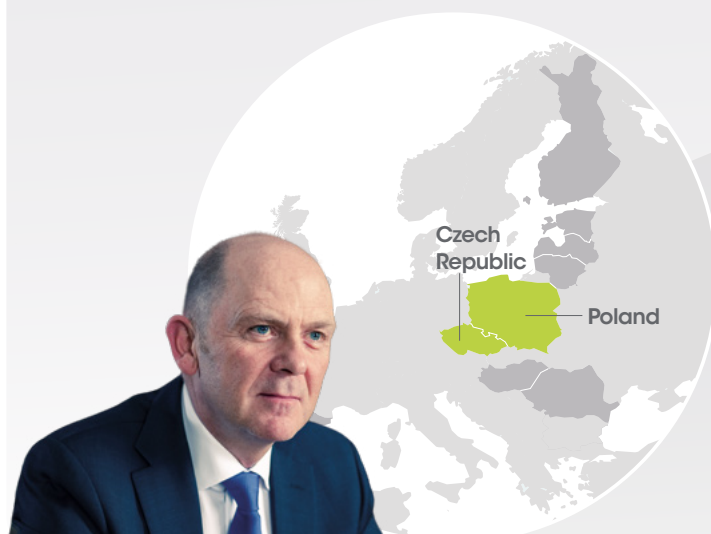
Reporting segments

In order to further simplify our financial reporting in alignment with our strategy, we have decided to consolidate all our European home credit businesses into one reporting segment. Accordingly, in 2018 our segmented reporting will comprise European home credit, Mexico home credit and IPF Digital.

Outlook

We are focused on serving our customers responsibly within a regulatory and competitive landscape that we expect will remain challenging. We will continue to improve the sustainability of our European home credit businesses by creating more modern, efficient, higher credit quality operations that provide a good service to customers, and continue to generate the cash and capital to fund growth opportunities and returns to shareholders. We expect IPF Digital to deliver further strong growth and an improved performance driven by increased scale and further enhancements in financial metrics as our new markets grow and mature. In Mexico, we expect to return to customer growth, expand our geographic footprint and micro-business channel, and deliver improved operational efficiency in our established branches.

Northern Europe



"We are managing Northern Europe to deliver a high level of service to our customers and optimise returns."

David Parkinson
Regional Manager

Our Northern Europe region delivered profit before tax of £59.8 million which reflects a reduction in like-for-like profit of £24.9 million driven primarily by intense competition in the Czech Republic and lower pricing introduced following the price cap on consumer loans which came into force in Poland in March 2016. In addition, we took the decision to increase our credit score cut-off threshold in Poland which resulted in a smaller but higher quality portfolio. The result for the region was offset partly by a £9.1 million benefit from stronger FX rates.

Credit issued for the region reduced by 1% in 2017 with 3% growth in Poland and a 16% contraction in the Czech Republic, due mainly to intense competition from banks, and payday and digital lenders. Average net receivables contracted by 4% reflecting the reduction in credit issued in the Czech Republic. The smaller receivables portfolio, together with a reduction in revenue yield from 82% to 77%, resulted in a 10% contraction in revenue. In Poland, our decision to implement increased credit score thresholds combined with price cap driven yield compression led to a reduction in revenue. In the Czech Republic, reduced revenue arose due to the contraction in the receivables book and a reduction in yield as a result of our strategy of serving customers with longer-term loans.

We continued to deliver a good collections performance which resulted in a 0.3 ppt year-on-year improvement in impairment as a

percentage of revenue to 22.7%. The cost-income ratio for the region increased by 5.0 ppts to 41.8%, which reflected the contraction of revenue yields together with higher costs. The cost increase was driven by further investment in our Provident-branded digital offering in both markets together with higher levels of depreciation and increased IT spend largely arising from the rollout of our agent mobile technology.

In the absence of an update from the Polish Ministry of Justice on its proposal to further tighten existing cost of credit legislation, we will continue to operate in line with our strategy and manage our Northern Europe region to deliver a high level of service to our customers while optimising returns. We also expect to deliver progressive improvements in the cost-income ratio in 2018 as we see the benefits of agent mobile technology being used across the region.

	2016 £M	2017 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	849	737	(112)	(13.2)	(13.2)
Credit issued	468.9	508.6	39.7	8.5	(1.3)
Average net receivables	403.3	424.0	20.7	5.1	(4.3)
Revenue	330.6	327.0	(3.6)	(1.1)	(10.1)
Impairment	(76.2)	(74.1)	2.1	2.8	12.2
Net revenue	254.4	252.9	(1.5)	(0.6)	(9.5)
Finance costs	(21.7)	(24.4)	(2.7)	(12.4)	(2.5)
Agents' commission	(35.5)	(32.1)	3.4	9.6	17.7
Other costs	(121.6)	(136.6)	(15.0)	(12.3)	(3.5)
Profit before taxation	75.6	59.8	(15.8)	(20.9)	

Southern Europe



"Regulatory changes in Romania impacted growth rates but we delivered a record profit performance."

Botond Szirmák
Regional Manager

Southern Europe delivered improved profit performances in both markets, increasing total profit before tax for the region to £54.5 million driven by good growth in Hungary and a significant contribution from debt sale profit in Romania. This result reflects like-for-like profit growth of £11.1 million and a £2.9 million positive impact of FX rates.

Non-banking financial institutions in Romania were required to operate under tighter creditworthiness assessment legislation from January 2017, and serving customers under this new framework resulted, as expected, in a contraction in growth rates in Southern Europe. For the region as a whole, credit issued reduced by 6% reflecting growth in Hungary offset by a 20% contraction in Romania. Average net receivables increased by 9% as a result of our continued strategy to offer higher value, longer-term loans in response to customer demand. Revenue contracted by 2% due to the lower yields earned on this longer-term lending.

We delivered very good collections with a strong, consistent performance in Hungary throughout the year and a progressive improvement in Romania following a difficult first quarter as we transitioned the business to operate under the new regulations. In the second half of the year, we also executed a number of significant debt sales, principally in Romania, and this contributed approximately £11 million to profit growth in the year. We expect approximately half of this benefit to recur in 2018 as we move to

forward flow agreements in both countries. The good collections performance together with the debt sale profit delivered an 11.0 ppt improvement in impairment as a percentage of revenue to 9.6% at the year end.

The cost-income ratio increased by 3.0 ppts to 39.1% which reflects higher levels of IT investment to support the digitisation of our business together with compression in revenue yields.

Like Northern Europe, we will continue to focus on transitioning our business in Romania to operate within the requirements of the National Bank of Romania Special Registry framework and improve the efficiency of our operations.

	2016 £M	2017 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	594	499	(95)	(16.0)	(16.0)
Credit issued	289.0	288.4	(0.6)	(0.2)	(5.9)
Average net receivables	205.5	237.7	32.2	15.7	8.7
Revenue	170.8	177.7	6.9	4.0	(2.4)
Impairment	(35.2)	(17.0)	18.2	51.7	55.3
Net revenue	135.6	160.7	25.1	18.5	11.5
Finance costs	(11.5)	(12.2)	(0.7)	(6.1)	-
Agents' commission	(22.2)	(24.5)	(2.3)	(10.4)	(3.8)
Other costs	(61.6)	(69.5)	(7.9)	(12.8)	(6.8)
Profit before taxation	40.3	54.5	14.2	35.2	

Mexico



"We delivered good credit issued growth, and expanded our geographic footprint and micro-business channel despite disruption caused by two earthquakes."

Robert Husband
Country Manager

Our business in Mexico delivered a £3.0 million improvement in profit before tax to £14.7 million, despite being impacted by two earthquakes in September. This result includes a £4.3 million investment in geographic expansion and building our micro-business channel (2016: £2.5 million).

Our objective in 2017 was to maintain the growth momentum achieved in Q4 2016 (8% annualised). We delivered credit issued growth of 19% in the year to August and, notwithstanding the disruption caused by the two earthquakes in September (which resulted in a contraction of 7% rather than growth), our teams worked hard to react to these events and achieved credit issued growth in the fourth quarter of 8% and 13% for the year as a whole. We also executed our programme of investment in our micro-business channel and geographic expansion, opening six new branches in the first half of 2017.

This growth delivered an increase in average net receivables of 11% and, with revenue yields remaining consistent year-on-year, revenue increased at a similar rate. The growth in credit issued was accompanied by an improvement in our collections performance and impairment as a percentage of revenue improved by 1.7 pts to 34.8%. This is higher than our original guidance for 2017 but in line with the expectations set out in our Q3 trading update following the earthquakes. It also includes £1.5 million of impairment arising from our decision to close two branches in the north of Mexico in order to focus on improved operational efficiency.

We continued to invest in growth which resulted in an increase in other costs of £10.9 million at constant exchange rates (actual: £13.7 million). Around half of this investment supported improved operating performance in our existing branches with the balance invested in our expansion programme and micro-business channel. This led to a small increase of 0.8 pts in the cost-income ratio to 40.4% for Mexico as a whole.

There are significant growth opportunities for our home credit business in Mexico and we expect to return to customer growth in 2018. We will continue to implement our new branch opening programme and build our micro-business channel to maximise these opportunities, while simultaneously focusing on managing selected established branches to deliver improved operational leverage.

	2016 £M	2017 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	841	828	(13)	(1.5)	(1.5)
Credit issued	233.4	273.7	40.3	17.3	12.9
Average net receivables	149.7	172.2	22.5	15.0	10.9
Revenue	186.5	217.0	30.5	16.4	12.0
Impairment	(68.0)	(75.6)	(7.6)	(11.2)	(7.4)
Net revenue	118.5	141.4	22.9	19.3	14.7
Finance costs	(8.6)	(10.2)	(1.6)	(18.6)	(14.6)
Agents' commission	(24.3)	(28.9)	(4.6)	(18.9)	(14.7)
Other costs	(73.9)	(87.6)	(13.7)	(18.5)	(14.2)
Profit before taxation	11.7	14.7	3.0	25.6	

IPF Digital



"Our new markets grew strongly and established markets delivered improved profitability to £18.5 million."

Rami Ryhanen
General Manager

IPF Digital represents a significant growth opportunity for the Group and continued to develop well in 2017. Our established digital markets delivered a strong increase in credit issued and good profit growth to £18.5 million, which was offset by the planned increase in investment in our new markets and head office capabilities. IPF Digital as a whole incurred a loss before tax of £11.7 million.

	2016 £M	2017 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	194	226	32	16.5	16.5
Credit issued	150.2	230.8	80.6	53.7	43.6
Average net receivables	86.4	159.2	72.8	84.3	72.9
Revenue	58.1	104.1	46.0	79.2	67.6
Impairment	(17.5)	(42.9)	(25.4)	(145.1)	(127.0)
Net revenue	40.6	61.2	20.6	50.7	41.7
Finance costs	(4.0)	(8.4)	(4.4)	(110.0)	(100.0)
Other costs	(45.9)	(64.5)	(18.6)	(40.5)	(30.8)
Loss before taxation	(9.3)	(11.7)	(2.4)	(25.8)	

Demand continued to grow for our credit line and digital instalment loans, which drove a 44% increase in credit issued to £230.8 million. Average net receivables increased by 73% which resulted in 68% revenue growth while impairment as a percentage of revenue increased year-on-year by 11.1 pts to 41.2%. This reflects an improved credit performance in our established markets, offset by the increased weighting of new markets in our portfolio and the inclusion of the benefit of a one-off debt sale in our established markets in our 2016 impairment charge.

As previously guided, we invested an additional £7.0 million in building our new markets of Poland, Spain, Australia and Mexico, and strengthening our head office capabilities and technology platform to deliver future growth. The strong increase in revenue offset these additional costs and resulted in a 17.0 ppt reduction in the cost-income ratio to 62.0%.

The profitability of IPF Digital is segmented as follows:

	2016 £M	2017 £M	Change £M	Change %
Established markets	12.4	18.5	6.1	49.2
New markets	(15.4)	(20.5)	(5.1)	(33.1)
Head office costs	(6.3)	(9.7)	(3.4)	(54.0)
IPF Digital	(9.3)	(11.7)	(2.4)	(25.8)

Established markets

Our established markets of Finland and the Baltics continued to grow strongly and delivered an excellent financial performance in 2017, reporting a £6.1 million year-on-year increase in profit before tax to £18.5 million. This was achieved through smarter risk-based pricing strategies, strong customer relationship management (CRM) activities and increased penetration of our credit line product, all of which delivered credit issued growth of 20%.

	2016 £M	2017 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	137	141	4	2.9	2.9
Credit issued	108.4	138.7	30.3	28.0	19.9
Average net receivables	70.9	109.5	38.6	54.4	44.8
Revenue	45.5	63.4	17.9	39.3	30.5
Impairment	(7.6)	(13.2)	(5.6)	(73.7)	(57.2)
Net revenue	37.9	50.2	12.3	32.5	24.9
Finance costs	(3.4)	(5.8)	(2.4)	(70.6)	(61.1)
Other costs	(22.1)	(25.9)	(3.8)	(17.2)	(9.3)
Profit before taxation	12.4	18.5	6.1	49.2	

Average net receivables grew by 45% which generated a 31% increase in revenue. Credit quality remains excellent and impairment as a percentage of revenue was 20.8%, compared to 16.7% in 2016 which included a £4.4 million benefit from a one-off debt sale. The cost-income ratio improved by 7.7 ppts to 40.9% demonstrating the benefits of increased scale and tight cost control, while continuing to invest in generating growth.

New markets

Our new markets delivered another year of strong growth driven by Poland and Spain. We accelerated our investment in building consumer awareness of our brand and CRM activities, which resulted in strong credit issued growth of 105% to £92.1 million, and average net receivables and revenue growth of over 200%.

Impairment as a percentage of revenue in these rapidly growing markets continues to run at a relatively elevated level reflecting the greater mix of new customers who have a higher risk profile, and the normal learning curve for managing credit risk in new markets. We are continuously refining the credit settings and collections processes and, as expected, impairment as a percentage of revenue improved to 73.0% at the 2017 year end representing a 10.7 ppt improvement since the half year. Other costs increased by 53% to £28.9M reflecting increased expenditure on brand building and CRM activities. The cost-income ratio improved from 140% in 2016 to 71% in 2017, driven by increasing economies of scale.

	2016 £M	2017 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	57	85	28	49.1	49.1
Credit issued	41.8	92.1	50.3	120.3	104.7
Average net receivables	15.5	49.7	34.2	220.6	201.2
Revenue	12.6	40.7	28.1	223.0	201.5
Impairment	(9.9)	(29.7)	(19.8)	(200.0)	(182.9)
Net revenue	2.7	11.0	8.3	307.4	266.7
Finance costs	(0.6)	(2.6)	(2.0)	(333.3)	(333.3)
Other costs	(17.5)	(28.9)	(11.4)	(65.1)	(52.9)
Loss before taxation	(15.4)	(20.5)	(5.1)	(33.1)	

Outlook

Looking ahead to 2018 for IPF Digital as a whole, we expect to deliver continuing strong growth and an improved performance, driven by increased scale and further enhancements in impairment and cost-efficiency trends as our new markets grow and mature. Our previous guidance, based on accounting standard IAS39, was that we expected IPF Digital to deliver its maiden profit in 2018. Under the new accounting standard IFRS 9, the timing of impairment and therefore profit recognition, particularly in our new markets which are growing strongly, will be negatively impacted. Further information on IFRS 9 can be read in the financial review on page 33.

Good returns and a strong financial profile

Financial strategy and financial model

We aim to deliver long-term profitable growth and deploy capital efficiently, in order to develop and run high-return businesses which provide good returns to shareholders while maintaining a strong financial profile. We have a good track record of doing this, even during periods of macroeconomic and financial market volatility, as well as periods of competitive and regulatory change for our business.


We adopt a Group financial model which sets key aligned financial parameters. This focuses on returns and capital; financial profile; and balancing investment, growth and risk. Over the medium term, we aim to achieve a good return on the capital invested in receivables for each of our businesses, recognising their different stages of development and investment profile, and pay

an appropriate level of dividends to shareholders. We continue to maintain a strong balance sheet with appropriate capital supporting receivables, and have a strong debt funding position with good headroom on debt facilities and on debt covenants. We ensure that we have adequate equity capital and debt funding to support future growth and to withstand external shocks if they arise, enabling us to achieve good returns within the financial parameters.

Our businesses are at different stages of development. The European home credit businesses are cash and capital generative and provide attractive returns. Our IPF Digital and Mexico home credit businesses are growing strongly and we continue to invest in them to further build returns over the medium term. The strong capital generation of the European home credit businesses provides significant capital for our IPF Digital and Mexico home credit businesses, in addition to any capital generated by those growth businesses themselves.

We have a strong balance sheet, funding position and robust financial risk management. We operate with a target equity to receivables capital ratio of around 40%. To maintain the credit quality of lending, we target an impairment to revenue range of 25-30% and at Group level we have always operated within or just below this range. Our debt funding strategy provides a resilient funding position for the existing business and for future growth, through a diversified debt portfolio of bond and bank facilities including significant long-term funding. By maintaining our strong financial profile, we are able to operate with significant headroom on the financial covenants in our debt facilities. Our strong balance sheet and funding position also give us significant resilience to counter external factors including taxation challenges and regulatory turbulence.

 **For a reconciliation and glossary of the alternative performance measures that we use** see pages 133-136

 **For our operational review of 2017 performance** see pages 24-30



“We aim to deliver long-term profitable growth, deploy capital efficiently, develop and run high-return businesses providing good returns to shareholders, and maintaining a strong financial profile.”

Justin Lockwood
Chief Financial Officer

Returns

As a Group, we aim to deliver long-term profitable growth, good returns for shareholders, and the efficient deployment of capital generated to support growth and pay dividends.

We believe that the return on assets (ROA) metric is a good measure of financial performance of our businesses, showing the ongoing return on the total equity and debt capital invested in the receivables book for those businesses, and for the Group. In addition, we believe that the Group return on equity (ROE) metric is a good measure of overall returns for shareholders.

The table below shows the ROA for our European home credit, IPF Digital and Mexico home credit businesses, and for the Group as a whole. ROA is measured as profit before interest, after tax, divided by the average receivables during the period.

We would expect to earn higher returns on our European home credit businesses, and lower but growing returns on the IPF Digital and Mexico home credit growth businesses. It is expected that these growth businesses will deliver improved returns over the medium term and, notwithstanding any other changes, the overall Group ROA will reflect this dynamic.

Return on assets from continuing operations

	2016	2017
European home credit	18.2%	16.2%
Mexico home credit	10.1%	10.3%
IPF Digital	(4.5%)	(1.5%)
Slovakia and Lithuania	(25.1%)	284.1%
Group¹	12.3%	11.5%

1. Adjusted for exceptional tax charge

 For further information see page 136

In 2017, ROA in our ongoing European home credit business reduced from 18.2% to 16.2% which reflects a reduction in like-for-like profit in Northern Europe partially offset by an improvement in Southern Europe, with the investment in average net receivables remaining broadly flat. We reported marginally improved returns in Mexico reflecting an increase in profit that was slightly higher than the increase in receivables. IPF Digital delivered a negative ROA in both years due to the investment in new markets and building functional capability to support growth, and in 2017 we reported a reduction in the negative return reflecting the improving return dynamics of the business. In addition, ROA in 2017 in all segments was adversely impacted by a 3.2% increase in the effective tax rate, excluding exceptional items (2017: 29.0%; 2016: 25.8%). The overall Group ROA contracted by 0.8 ppts which was driven by the moderation of returns from European home credit, an increase in the scale of IPF Digital in the context of the Group and the higher effective tax rate.

Return on equity from continuing operations

Return on equity for the Group is measured as profit after pre-exceptional tax divided by average equity.

ROE reduced from 18.8% in 2016 to 15.7% in 2017 which reflects the fact that average equity has increased at a faster rate than pre-exceptional post tax earnings. The increase in pre-exceptional post tax earnings was driven by growth in profit before tax partially offset by the impact of a 3.2% increase in the effective tax rate in 2017 whereas, the increase in equity was driven predominately by the foreign exchange impact on reserves explained later in this report.

 For further information see page 136

Capital generation

Strong capital generation is a key feature of our business, providing capital for the continuing growth of the business and dividends to shareholders, while maintaining our strong financial profile.

The table below shows capital generated by our home credit businesses, and the net capital investment in IPF Digital, along with dividends declared. We fund our receivables book with approximately 40% equity and 60% debt. Capital generated is calculated as profit after tax, after assuming that 60% of the growth in receivables is funded with debt and 40% with equity.

Capital generated before investing in receivables growth was £75.0 million in 2017 increasing from £71.2 million in 2016. £49.9 million of this was used to invest in receivables growth (at 40% equity funding for receivables). The European home credit business generated £63.1 million of capital in 2017 (2016: £56.2 million), and Mexico home credit generated £9.0 million (2016: £6.2 million). There was a £38.8 million investment of capital in IPF Digital (2016: £33.9 million). The other balance comprises the net of central costs, and Slovakia and Lithuania.

Capital generation from continuing operations

	2016 £M	2017 £M
Profit before tax	96.0	105.6
Pre-exceptional tax	(24.8)	(30.6)
Profit after pre-exceptional tax	71.2	75.0
Receivables growth funded by equity (40%)	(54.2)	(49.9)
Capital generated	17.0	25.1
European home credit	56.2	63.1
Mexico home credit	6.2	9.0
IPF Digital	(33.9)	(38.8)
Other	(11.5)	(8.2)
Dividends declared	(27.4)	(27.6)
Capital consumed	(10.4)	(2.5)

Earnings per share from continuing operations

Earnings per share based on a pre-exceptional tax charge was 33.7 pence in 2017 compared with 32.2 pence in 2016 reflecting the increase in profitability, partially offset by the higher effective tax rate.

Dividend

Subject to shareholder approval, a final dividend of 7.8 pence per share will be payable, which will bring the full-year dividend to 12.4 pence per share (2016: 12.4 pence per share). The full-year dividend of 12.4 pence per share represents a total payment equivalent to approximately 61.3% of post-tax earnings from continuing operations for 2017. As a percentage of pre-exceptional profit after tax from continuing operations for 2017, it equates to a pay-out ratio of approximately 36.8%, which is modestly above our target pay-out rate of 35%. The final dividend will be paid on 11 May 2018 to shareholders on the register at the close of business on 13 April 2018. The shares will be marked ex-dividend on 12 April 2018.

Financial profile

We aim to maintain a strong financial profile with a robust balance sheet and funding position. The target equity to receivables capital ratio of 40% balances having sufficient capital to withstand external shocks including macroeconomic, regulatory, and tax factors, while providing good returns on equity to shareholders. At times, we may choose to hold equity higher than the target level to support future growth and to ensure a continuing strong financial profile.

At December 2017, the equity to receivables ratio was 47.0 % (2016: 45.7%) compared with our target level of 40%, meaning equity capital was £74 million above the target level. Equity reflects a £51.3 million positive currency movement and an exceptional tax charge of £30.0 million in respect of deferred tax. While the capital ratio is substantially higher than the target level, we are comfortable with this, to ensure sufficient capital for growth while maintaining the resilience of the balance sheet given the regulatory and tax challenges that the Group faces. Gearing was 1.4x at December 2017 (2016: 1.5x), well within the covenant level of 3.75x maximum in our debt facilities.

Our target range of impairment to revenue of 25% to 30% means that we maintain credit quality throughout an economic cycle, and the Group has always operated within or just below this range since demerger in 2007, even during the global financial crisis of 2009. Our shorter-term lending provides significant flexibility to adjust credit parameters as macroeconomic conditions change.

Group impairment as a percentage of revenue at 24.4% in 2017 was slightly below the target range. The average period of receivables outstanding at December 2017 was 9.1 months (2016: 7.8 months) with 82.0% of year-end receivables due within one year (2016: 86.0%). The average period of receivables outstanding has increased as a result of issuing longer-term loans in our European home credit and IPF Digital businesses. Closing receivables in 2017 were £1,056.9 million, which is £61.8 million (6%) higher than 2016 in constant currency terms reflecting the growth in the business.

We operate a prudent, objective and centrally controlled impairment provisioning system in both our home credit and IPF Digital businesses that has the following key attributes, as detailed in the following table:

Assessment period	Home credit Weekly and monthly	Digital Monthly
Impairment trigger	Missed payment or part of a missed payment, even if the agent fails to visit the customer.	Default point when the debt is passed to a third-party collection agency. This averages around 60 days past due across IPF Digital. An incurred but not reported provision is held for receivables pre-default. This is calculated based on probability of default factors.
Segmentation of receivables	Any missed payment or portion of payment, even if the agent fails to visit a customer, with the exception of the first four weeks for a new customer to allow repayment patterns to be established.	Debt is segmented based on the number of days past due and provision is based on expected loss of each segment.
Provisioning	Provision percentages for each arrears stage have been derived using statistical modelling of past customer performance that estimates the amount and timing of cash flows.	The provision percentage is based on probability of default and loss given default factors. This calculation is updated quarterly.

IFRS 9

IFRS 9 is a new accounting standard that addresses accounting for financial instruments with the main impact on the Group being a change to the methodology used to account for loans due from customers. The key change compared to the old accounting standard is a shift from incurred loss to expected loss impairment accounting. Under IFRS 9, the Group will be required to record impairment charges at the inception of a loan based on the losses that are expected to be incurred and this will result in negative net revenue at the start of a loan. The new standard became effective from 1 January 2018.

The overall impact of the new standard will be a reduction in the carrying value of receivables on the balance sheet and our preliminary assessment is that it will have an impact of between 11% and 13%. The day one impact of this adjustment will be charged to equity. After this adjustment to receivables, IFRS 9 would have no impact on net revenue generation if a receivables book is stable both in terms of size and quality. This is because for every new loan issued where impairment is booked on origination, there is another older loan where net revenue is higher than under the current accounting standard. However, if a receivables book is growing, profit will be lower under IFRS 9 because impairment booked at origination is larger than the benefit arising from higher net revenue on older agreements. In contrast, if the receivables book is contracting, profit will be higher under IFRS 9 because the early impairment booked at origination is offset by higher net revenue on the older agreements.

Under IFRS 9, our preliminary assessment is that profit in 2017 would have been around 6% to 8% lower than under the current accounting standard which is principally due to lower net revenue generation in IPF Digital and our Mexican home credit business, where receivables portfolios are growing.

The financial covenants on our debt funding facilities are based on the current accounting standard and therefore are not impacted by this change.

IFRS 9 is an accounting change that has no impact on the business model, credit quality, cash flows and economic value or returns.

Further information on IFRS 9 can be found in the accounting policies on pages 99 to 100.

Treasury risk management and funding

There are Board-approved policies to address the key treasury risks that the business faces – funding and liquidity risk, financial market risk (currency and interest rate risk), and counterparty risk. The policies are designed to provide robust risk management, even in more volatile financial markets and economic conditions within our planning horizon.

Our funding policy requires us to maintain a resilient funding position for the existing business and for future growth in each market. We aim to maintain a prudent level of headroom on undrawn bank facilities. Our currency policy addresses economic currency exposures and requires us to fund our currency receivables with currency borrowings (directly or indirectly) to achieve a high level of balance sheet hedging. We choose not to hedge the translational risk of foreign currency movements on accounting profits and losses. Our interest rate policy requires us to hedge interest rate risk in each currency to a relatively high level. Our counterparty policy requires exposures to financial counterparties to be limited to single A-rated entities, except as approved by the Board. In addition to these policies, our operational procedures and controls ensure that funds are available in the right currency at the right time to serve our customers throughout the Group.

Debt funding is provided through a diversified debt portfolio at competitive cost with appropriate terms and conditions. We have a range of bonds across a number of currencies, wholesale and retail, with varying maturities including significant long-term funding, together with facilities from a core group of banks with a good strategic and geographic fit with our business. IPF's debt is senior unsecured debt, with all lenders substantially in the same structural position. We maintain our Euro Medium Term Note programme as the main platform for bond issuance across a range of currencies. In addition, a Polish Medium Term Note programme has been used for bond issuance in the Polish market. This achieves further diversification and reinforces our corporate position in that market.

Our debt funding strategy has been successful over a number of years, and we have a consistent record of accessing debt markets throughout the economic cycle.

In 2017 we added £53.0 million of new and increased three year bank funding, including increased commitments in Poland and Hungary, and two new banks. Also, we issued €12 million (£10.7) million of new bonds as a tap of our existing 2021 bonds, and at the same time bought back €11.75 million (£10.5 million)

of our 2018 bonds. In addition the funding position in 2017 benefited from the strong cash collection in Slovakia and Lithuania.

Our debt funding position is summarised in the table below. At December 2017 we had total debt facilities of £867.0 million (£593.2 million bonds and £273.8 million bank facilities) and borrowings of £677.7 million with headroom on undrawn debt facilities of £189.3 million. In January 2018, we repaid £11.5 million Hungarian bonds. We have further bond maturities in 2018 of £25.3 million in May and £28.3 million in November and December. We have significant long-term funding, with over £500 million of bonds in place until 2020/21. The vast majority of bank facilities are extended on a rolling basis annually.

	Maturity	£M
Bonds		
Euro	April 2021	368.4
Euro	May 2018	25.3
Sterling	May 2020	101.5
Czech	November 2018	8.8
Czech	December 2018	7.0
Romanian	December 2018	12.5
Romanian	December 2019	15.2
Hungarian	January 2018	11.5
Polish	June 2020	43.0
Total bonds		593.2
Bank facilities	2018-2020	273.8
Total debt facilities		867.0
Total borrowings		677.7
Headroom		189.3

The currency structure of our debt facilities matches the asset and cash flow profile of our business. We have local currency bank facilities and bonds, and our main €412 million (£368.4 million) Eurobond provides direct funding to our markets using the Euro currency, and to markets using other currencies via foreign exchange transactions. Therefore, we do not expect fluctuations in the value of sterling to have a major impact on our funding position.

By maintaining a strong financial profile, we operate with significant headroom on the financial covenants in our debt facilities, as set out in the table below.

Covenant compliance and other key metrics		2016	2017
Gearing*	Max 3.75	1.5x	1.4x
Interest cover	Min 2 times	3.2x	3.1x
Net worth*	Min £250 million	£427.9M	£489.2M
Receivables: borrowings	Min 1.1:1	1.5x	1.6x
EBITDA ¹		£161.7M	£182.5M
Cash generated from operating activities		£136.2M	£143.6M
Debt: EBITDA multiple		3.9x	3.7x

* Adjusted for derivative financial instruments and pension liabilities according to covenant definitions

1. For further information see page 136

Foreign exchange input on reserves

The majority of the Group's net assets are denominated in our operating currencies and, therefore, the sterling value fluctuates with changes in currency exchange rates. In accordance with accounting standards, we have restated the opening foreign currency net assets at the year-end exchange rate and this resulted in a £51.3 million foreign exchange movement, which has been credited to the foreign exchange reserve.

Taxation

The taxation charge for the year on statutory pre-tax profit from continuing operations excluding exceptional items was £30.6 million (2016: £24.8 million) which equates to an effective rate of 29.0% (2016: 25.8%). This excludes a £30.0 million one-off tax charge arising in respect of a change of tax law in Poland, which is further explained below and including this item the tax charge was £60.6 million, which equates to an adjusted effective tax rate of 57.4%. It also excludes a £0.5 million tax charge in respect of our Bulgarian operation, which was disposed of during 2017 and which is reported as a loss on discontinued operations. The effective tax rate for 2018 is expected to be in the region of 33% to 35% which assumes the impact of changes to our business operations in Poland that we are currently evaluating following the change in tax legislation on 1 January 2018.

As previously reported, our home credit business in Poland appealed decisions received in January 2017 from the Polish Tax Chamber (the upper tier of the Polish tax authority) with respect to the 2008 and 2009 financial years. The decisions for both years involve a transfer pricing challenge relating to an intra-group arrangement with a UK entity, together with a challenge to the timing of taxation of home collection fee revenues. In order to appeal these decisions, with which we strongly disagree, it was necessary to pay the amounts assessed. The payment is not a reflection of our view on the merits of the case and, accordingly, it has been recognised as a non-current financial asset of £37 million (comprising tax and associated interest) in our Group accounts. At the time of our original announcement in January 2017, we said that we intended to initiate a process with the UK tax authority aimed at ensuring that the intra-group arrangement is taxed in accordance with international tax principles. This has now been initiated and, in response, the Polish court has stayed the hearings of the 2008 and 2009 appeals pending resolution of this process. The 2010 and 2011 financial years are being audited by the tax authorities in Poland currently. In the event that the Polish tax authority were to issue decisions following the same reasoning as the decisions for 2008 and 2009 we would need to pay c. £44 million in order to appeal the cases. All subsequent financial years remain open to future audit.

As indicated in our statement of 4 October 2017, a comprehensive set of proposed changes to Polish corporate income tax was approved by the Polish Government's Council of Ministers. This came into force on 1 January 2018. The main impact for our business relates to the tax deductibility of certain expenses linked to intra-group transactions. Due to the absence of adequate transitional provisions in the new law, payments made prior to 1 January 2018 under long-standing arrangements have become tax ineffective. Historically, these

amounts have been treated as giving rise to a deferred tax asset, which has now been written off. The overall impact of this is a one-off deferred tax charge of £30 million in 2017, which has been treated as an exceptional tax expense in the 2017 accounts.

Summary of key financial statistics

	2016	2017
Revenue ¹ (£M)	756.8	825.8
Profit before tax ¹ (£M)	96.0	105.6
EBITDA (£M)	161.7	182.5
Cash generated from operating activities (£M)	136.2	143.6
Impairment as a percentage of revenue (%)	24.4%	24.4%
Receivables (£M)	939.9	1,056.9
Equity (net assets) (£M)	429.5	496.9
Equity to receivables (%)	45.7%	47.0%
ROA (%) ²	12.3%	11.5%
ROE (%) ²	18.8%	15.7%
Capital consumed (£M)	(10.4)	(2.5)
Dividend paid (£M)	27.4	27.6
Dividend per share (pence)	12.4	12.4
Finance costs (£M)	46.8	55.2
Borrowings (£M)	622.8	677.7
Gearing (debt: equity multiple)	1.5x	1.4x
Headroom on undrawn bank facilities (£M)	152.4	189.3

1. From continuing operations

2. Adjusted for exceptional tax charge

Going concern

The Board has reviewed the budget for the year to 31 December 2018 and the forecasts for the two years to 31 December 2020, which include projected profits, cash flows, borrowings, headroom against debt facilities, and funding requirement. The Group's total debt facilities including a range of bonds and bank facilities, combined with a successful track record of accessing debt funding markets over a long period (including periods of adverse macroeconomic conditions and a changing competitive and regulatory environment) is sufficient to fund business requirements for the foreseeable future. Taking these factors into account, together with regulatory and taxation risks set out on pages 39 and 40, the Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, the Board has adopted the going concern basis in preparing this annual report.



Justin Lockwood
Chief Financial Officer

CEO Gerard Ryan reviews risk management

Risk management is integral to the Group's strategy and the achievement of our long-term goals. Our risk management activities are undertaken within a framework that is tailored to IPF and ensures we have robust processes in place to allow management to identify, evaluate, manage and report on the principal risks that could affect the Group.

 For our governance and oversight structure go online to www.ipfin.co.uk



Q. What were the key risk focus areas in 2017?

We continued to operate within a challenging external environment. During 2017, regulatory risk remained a priority for our Board and management teams, as did competition, tax and technology. Changes to consumer lending regulations in Romania impacted how we serve customers in that market; we await an update on the Polish Ministry of Justice's rate cap proposals and we were focused on the taxation risk in Poland. Details of these matters are outlined in my CEO review on pages 15.

Q. Did the principal risks change in 2017?

Yes. As the implementation of our strategy relies more on technology we now consider the development and maintenance of effective technology solutions as one of our principal risks. During the year, we also split the review of the Legal and Regulatory risk into three categories – Legal and Regulatory Compliance, Legal and Regulatory Challenges and Issues, and Future Legal and Regulatory Developments. This decision was taken in order to better manage internally-driven compliance risk separately from the external risk of potential challenge to our interpretation or application of existing laws and regulations, or potential changes to laws and regulations.

Q. Looking ahead, what are the key risks in 2018?

We expect regulation, competition, tax and technology to be a key focus for the Board and senior management team in the year ahead although all of our principal risks will be monitored and managed closely. These risks are included on pages 38 to 43.

Q. How are risks identified at IPF? Did this change in 2017?

We identify emerging risks and manage current issues as part of day-to-day business management, and this is undertaken through monitoring the external environment and discussions with internal management and external agencies. Formal risk management discussions occur in line with the management framework set out on page 37.

"Our risk management process is designed to support the execution of our strategy, improve decision-making and deliver on the commitments made to our key stakeholders."

Gerard Ryan
Chief Executive Officer

Internally, we are enhancing the risk management process across our business, maintaining emphasis on the ability to identify and evaluate emerging risks. This includes the implementation of a new risk reporting and evaluation tool across the Group. The Internal Audit function has also continued to monitor the effectiveness of the overall operational governance and oversight structure.

Q. How is risk evaluated at IPF?

We evaluate each risk that could impact the business at least quarterly and this is based on the likelihood and potential financial impact of that risk at both market and Group level. We consider two aspects:

- inherent risk – the impact of the risk before internal controls or mitigating actions; and
- residual risk – the risk that remains after the effect of mitigating actions and controls are considered.

Using this assessment, we identify the principal risks and determine whether further actions are required to mitigate the risk to within our agreed risk appetite levels.

This process also identifies risks that have a high reliance on the effective operation of our internal control system which, in turn, guides the planning of our internal audit team's work.

Q. How is risk managed at IPF?

Effective management of risks, uncertainties and opportunities is critical to our business in order to deliver long-term shareholder value, and to protect our people, assets and reputation. The principal risks to our strategy are identified, evaluated and managed at Group level in accordance with our operational governance and oversight structure, which can be viewed at www.ipfin.co.uk. We operate similar structures in each of our home credit markets and IPF Digital. A bottom-up assessment of principal risks by our business unit teams is aggregated for their Group-level owners and then validated to produce an overall assessment of those risks.

Q. How do you determine risk appetite and did it change in 2017?

Group risk appetite is proposed by the risk owners, reviewed by the Risk Advisory Group and approved by the Board on an annual basis. Action plans are created in cases where residual risk is in excess of this appetite and progress against these is monitored by the Board at each meeting.

The setting of appetite includes consideration of the external environment impacting the risk, driven largely by the markets in which we operate, and the extent to which this can be managed or influenced. We accept that the nature of our operating model and the external environment in the markets in which we operate generates risk and this needs to be balanced to optimise returns. Our appetite for risks which can be mitigated largely by our internal control system is low.

Our risk appetite remained broadly unchanged in 2017.

Our framework for the identification, evaluation and management of our principal risks

The Board

The Board determines the nature and extent of the principal risks it is willing to take in achieving our strategic objectives (as described on pages 12 and 13) and target business model (as described on pages 8 and 9), taking account also of the environment in which the Group operates. The Board approves the principal risks as described in the Group Schedule of Key Risks on a six-monthly basis and approves risk appetite annually.

Audit and Risk Committee

On behalf of the Board, the Committee reviews the Group's processes for the management of the principal risks and its systems of internal control. The Committee receives and challenges the Group Schedule of Key Risks together with regular reports and presentations on the effectiveness of the control environment. It has confirmed the adequacy of the actions being taken by management to manage risks to within risk appetite levels. The Committee undertakes a robust assessment of the Group Schedule of Key Risks on a six-monthly basis. See page 53 for Committee membership and remit.

Risk Advisory Group

The Risk Advisory Group comprises the senior leadership team. It supports the Audit and Risk Committee by reviewing the level of risk exposure facing the Group against risk appetite, to ensure that the Group's risk-taking and response are appropriate. It meets four times each year.

Management Team

The management team is responsible for day-to-day risk management and internal control systems. Risk identification, evaluation and management processes form an integral part of business processes. Control and oversight activities are identified for all risks in the Group Schedule of Key Risks.

Three Assurance Lines of Defence

First line:

Business-level management identifies, assesses and controls risks principally at market level and also within major projects and change initiatives.

Second line:

Group-level management risk owners provide oversight on the effectiveness of the risk management and internal control systems.

Third line:

Internal Audit reviews the operation and oversight to the systems of internal control, including risk management. The Head of Internal Audit reports directly to the Chairman of the Audit and Risk Committee.

Principal risks and uncertainties continued

The directors have undertaken a robust, systematic assessment of the Group's principal risks including those that threaten its business model, future performance, solvency or liquidity. These have been considered within the time frame of three years which aligns with our viability statement on page 43.

Risk category	Definition	Risks	Description
Market conditions	The risk that we cannot identify, respond to, comply with or take advantage of external market conditions.	<p>Regulatory</p> <ul style="list-style-type: none"> • Legal and regulatory compliance* • Legal and regulatory challenges and issues* • Future legal and regulatory development* <p>Competition and product proposition</p> <ul style="list-style-type: none"> • Competition* • Product proposition* <p>Funding, market and counterparty</p> <ul style="list-style-type: none"> • Funding* • Interest rate and currency • Counterparty • World economic environment* • Taxation* 	<ul style="list-style-type: none"> • Compliance with existing laws and regulations • Challenges to interpretation or application of existing laws and regulations • Anticipating and responding to changes to laws and regulations and their interpretation • Responding to changes in market conditions • Meeting customer requirements • Funding availability to meet business needs • Market volatility impacting performance and asset values • Loss of banking partner • Adapting to economic conditions • Changes to, or interpretation of, tax legislation
Stakeholder	The risk that key stakeholders take a negative view of the business as a direct result of our actions or our inability to effectively manage their perception of the Group.	<ul style="list-style-type: none"> • Reputation* • Customer service 	<ul style="list-style-type: none"> • Reputational damage • Maintenance of customer service standards
Operational	The risk of unacceptable losses as a result of inadequacies or failures in our internal core processes, systems or people behaviours.	<ul style="list-style-type: none"> • Credit* • Safety* • People* • Business continuity* and information security* • Financial and performance reporting • Technology* • Fraud 	<ul style="list-style-type: none"> • Customers fail to repay • Harm to our agents/employees • Calibre of people • Recoverability and security of systems and processes • Failure of financial reporting systems • Maintenance of effective technology • Theft or fraud loss
Business development	The risk that our earnings are impacted adversely by a sub-optimal business strategy or the sub-optimal implementation of that strategy, due to internal or external factors.	<ul style="list-style-type: none"> • Change management* • Brand 	<ul style="list-style-type: none"> • Delivery of strategic initiatives • Strength of our customer brands

* Risks currently considered by the Board as the principal risks facing the Group.

As at the year end, the Board considered that there are 16 principal risks which require ongoing focus (noted with asterisks in the table on page 38).

Risk	Relevance to strategy	Mitigation	Commentary
<h2>1. Regulatory</h2> <p>We suffer losses or fail to optimise profitable growth due to a failure to operate in compliance with, or effectively anticipate changes in, all applicable laws and regulations, or due to a regulator interpreting these in a different way.</p> <p>Objective We aim to ensure that effective arrangements are in place to enable us to comply with legal and regulatory obligations and take assessed and fully informed commercial risks.</p>	<p>1 2 3</p> <p>Changes in regulation, differences in interpretation or clarification/enforcement of laws not previously enforced by courts and other bodies can lead to challenge of our products/practices.</p> <p>We must monitor legal and regulatory developments to ensure we maintain compliance, remain competitive and provide value for our customers.</p> <p>Likelihood The frequency of legal and regulatory change and the likelihood of challenge vary by market. In 2017, notable changes occurred in Romania.</p> <p>We also expect pricing regulations to be implemented at some point in the future in those markets where there are no price caps currently.</p>	<p>We have highly skilled and experienced legal and public affairs teams at Group level and in each of our markets.</p> <p>Expert third-party advisors are used where necessary.</p> <p>Strong relationships are established and maintained with regulators, legislators and other stakeholders. The strategy of strengthening relevant associations contributes to the monitoring, as well as to the influencing capabilities.</p> <p>Co-ordinated legal and public affairs teams, at a Group level and in each market, monitor political, legislative and regulatory developments.</p> <p>Compliance programme focused on key consumer legislation.</p>	<p>Lead responsibility: Chief Executive Officer</p> <p>See Chief Executive Officer's review and operational review for details of key regulatory changes in 2017 and proposals for future regulation.</p> <p>A number of legislative and regulatory changes have been implemented in 2017 and further potential changes continue to be proposed and debated, particularly in Europe. As stated elsewhere in this report, these have had a significant impact on our business in Romania in particular this year, and there continues to be the potential for a significant impact on our business in Poland.</p> <p>We continued to evolve and strengthen our approach to governing this risk focusing on establishing and maintaining constructive relationships with regulators, politicians and other stakeholders, participating in sector associations and informing our stakeholders about the role our services play in society and the economy.</p>
<h2>2. Competition and product proposition</h2> <p>We suffer losses or fail to optimise profitable growth through not responding to the competitive environment or failing to ensure our proposition meets customer needs.</p> <p>Objective We aim to ensure we understand competitive threats and deliver customer – focused products to drive growth.</p>	<p>1 2 3</p> <p>In an environment of increasing competition and broadening customer choice, ensuring our product meets customers' needs is critical to delivering growth.</p> <p>Likelihood Competition varies by market and is likely to remain at a high level, particularly in Europe.</p>	<p>Regular monitoring of competitors and their offerings, advertising and share of voice in our markets.</p> <p>Regular surveys of customer views on our product offerings.</p> <p>Product development committees established across the Group to manage product change and introduce new products.</p>	<p>Lead responsibility: Chief Executive Officer</p> <p>In Europe, competition in 2017 remained intense particularly from digital lenders, home credit operators and banks as they enhanced their customer propositions. In Mexico competition is stable and digital lending remains small-scale.</p> <p>IPF Digital continued to grow strongly in 2017 and diversification into digital lending enables us to offer further product choices to customers in our target segment.</p> <p>In 2017, we launched a number of pricing promotions in our European home credit markets to acquire new, and retain existing, customers.</p> <p>For more on our strategy see pages 12 and 13.</p>

1 Growth focus – IPF Digital

2 Growth focus – Mexico home credit

3 Returns focus – European home credit

▲ Risk environment improving

◀▶ Risk environment remains stable

▼ Risk environment worsening

Risk	Relevance to strategy	Mitigation	Commentary
<h3>3. Taxation</h3> <p>We suffer additional taxation or financial penalties associated with failure to comply with tax legislation or adopting an interpretation of the law that cannot be sustained.</p> <p>Objective</p> <p>We aim to generate shareholder value through effective management of tax while acting as a good corporate citizen. We are committed to ensuring compliance with tax law and practice in all of the territories in which we operate.</p>	<p>1 2 3</p> <p>Against a backdrop of increasing fiscal challenges for most economies, many authorities are turning to corporate taxpayers to increase revenues, either via taxation reforms or through changes to interpretations of existing legislation.</p> <p>Likelihood</p> <p>The likelihood of changes or challenges arising from tax legislation varies by market. Globally, OECD and EU-led developments may lead to an increase in transfer pricing audits.</p>	<p>Binding rulings or clearances obtained from authorities where appropriate.</p> <p>External advisors used for all material tax transactions.</p> <p>Qualified and experienced tax teams at Group level and in-market.</p>	<p>Lead responsibility: Chief Financial Officer</p> <p>Further detail on tax matters is included in the Chief Executive Officer's review on pages 14 to 17 and the financial review on pages 31 to 35.</p> <p>We have ongoing tax audits in Poland, Mexico and Slovakia. In Poland, where we appealed two adverse decisions made by the Polish tax authority in respect of 2008 and 2009, hearings have been stayed pending resolution of a process with the UK tax authority aimed at ensuring the intra-group arrangement being challenged is taxed in accordance with international tax principles. In order to appeal these decisions, we had to pay c. £37 million in tax and interest, and further payments could be required in respect of future years that are still open to audit, including 2010 and 2011 where audits are ongoing. All subsequent years remain open to audit. For further information see pages 35, 118 and 132.</p>
<h3>4. Technology and change management</h3> <p>We suffer losses or fail to optimise profitable growth due to a failure to develop and maintain effective technology solutions or manage change in an effective manner.</p> <p>Objective</p> <p>We aim to effectively manage the design, delivery and benefits realisation of major technology and change initiatives and deliver according to requirements, budgets and timescales.</p>	<p>1 2 3</p> <p>A core part of our strategy is to modernise our home credit operation and invest in digital developments.</p> <p>Effective management of the initiatives within this programme is essential.</p> <p>Likelihood</p> <p>Our change programme is complex covering numerous markets. By centralising our IT resources into an expanded Group IT structure and strengthening our programme management capabilities we are better placed to minimise the likelihood of programme-wide issues.</p>	<p>Executive director and country manager level prioritisation of key initiatives.</p> <p>Standard project management methodology principles defined.</p> <p>Governance structure in place to oversee ongoing change at Group and market levels, and review existing systems architecture.</p>	<p>Lead responsibility: Chief Executive Officer</p> <p>Our change programme encompasses a broad technological remit and we are rolling out mobile technology applications to agents.</p> <p>A revised IT strategy was launched in 2016 to ensure we are able to respond effectively to changing regulatory, competitor and customer behaviour dynamics.</p>

Risk

Relevance to strategy

Mitigation

Commentary

5. People

Our strategy is impacted by not having sufficient depth and quality of people or being unable to retain key people and treat them in accordance with our values and ethical standards.

Objective

We aim to have sufficient breadth of capabilities and depth of personnel to ensure that we can meet our strategic objectives.

1 2 3

Our strategy segments our operations into 'growth' focused and 'returns' focused businesses to reflect the fact that they are at different stages of maturity. In order to achieve our goals, we must continue to attract, engage, retain and reward the right people.

Likelihood

Our people, organisation and planning processes ensure that we develop appropriate and significant strength and depth of talent across the Group and we have the ability to move people between markets, which reduces our exposure to critical roles being under-resourced. During 2018, we will continue to develop, resource, retain and reward the right people.

Strategic people review processes (people and organisational planning) operate throughout the Group.

Group-wide personal development review process and continuous development through targeted leadership programmes.

Periodic employee and agent engagement surveys and improvement plans.

Focus on HR governance and maintenance of our employer value proposition across the Group.

Plan to introduce specific HR performance metrics in 2018.



Lead responsibility: Chief Executive Officer

Our people strategy focuses on building and maintaining a culture of high engagement and performance and we devote significant leadership time to identifying, developing and empowering our people.

We made structural changes in our European home credit business with the creation of the Northern Europe region and introduced a Group-wide functional matrix structure. These changes are further facilitating the sharing of best practice and collaboration.

We strengthened our Group-level leadership team with the appointment of a new Group HR Director and Chief Legal Officer.

6. Business continuity and information security

We suffer losses or fail to optimise profitable growth due to a failure of our systems, suppliers or processes or due to the loss, theft or corruption of information.

Objective

We aim to maintain adequate arrangements and controls that reduce the threat of service and business disruption and the risk of data loss to as low as is reasonably practicable.

1 2 3

Globally, we have 2.3 million customers and we record, update and maintain data for each of them on a regular basis, often weekly.

The availability of this data, and the continued operation of our systems and processes, is essential to the effective operation of our business and the security of our customer information.

Likelihood

While the external threat to our systems is increasing in the digital age, the tools in place reduce the likelihood of a significant failure or information loss.

Technology systems and services are designed for resilience and tested before launch.

Periodic ongoing testing and monitoring of security and recovery capability for technology and premises.



Lead responsibility: Chief Executive Officer

During 2017, we performed a number of tests of our information security and continue to work towards further improvement using expert advice.

In addition to periodic testing of technology, we perform regular tests and rehearsals of our communication processes and our plans for alternative worksites, where applicable.

We are working to ensure compliance in all our European markets with the new General Data Protection Regulation, which will be introduced 25 May 2018.

1 Growth focus – IPF Digital

2 Growth focus – Mexico home credit

3 Returns focus – European home credit

▲ Risk environment improving

◀▶ Risk environment remains stable

▼ Risk environment worsening

Risk	Relevance to strategy	Mitigation	Commentary
7. Reputation <p>We suffer financial or reputational damage due to our methods of operation, ill-informed comment or malpractice.</p> <p>Objective We aim to promote a positive reputation based on a mutual understanding of what we do that will help the Group deliver its strategic aims.</p>	<p>1 2 3</p> <p>Our reputation can have an impact on both customer sentiment and the engagement of key stakeholders, impacting our ability to operate and serve our customer segment.</p> <p>Likelihood We maintain strong relationships with key stakeholders across the Group in order to develop their understanding of our business model and how we deliver services to our customers. This helps protect the business from unforeseen events that could damage our reputation.</p>	<p>Group Reputation and Regulation Committee.</p> <p>Clearly defined corporate values and ethical standards are communicated throughout the organisation and all employees and agents are mandated to undertake annual ethics e-learning.</p> <p>Regular monitoring of key reputation drivers.</p>	<p>◀▶</p> <p>Lead responsibility: Chief Executive Officer</p> <p>Our home credit and digital businesses have achieved industry awards for the way we conduct our business and we have been recognised as a top employer and socially responsible business. We also undertake a range of corporate responsibility programmes. We take a proactive approach to reputation management and update the market on material challenges that we are required to disclose.</p>
8. World economic environment <p>We suffer financial loss as a result of a failure to identify and adapt to changing economic conditions adequately.</p> <p>Objective We aim to have business processes that allow us to respond to changes in economic conditions and optimise business performance.</p>	<p>1 2 3</p> <p>Changes in economic conditions have a direct impact on our customers' ability to make repayments.</p> <p>Likelihood While we operate in numerous markets, the likelihood of a change in economic markets that we are unable to respond to, and that impacts our strategy, is minimised by our short-term lending business models.</p>	<p>Treasury and credit committees review economic indicators.</p> <p>Monitoring of economic, political and national news briefings.</p> <p>Strong, personal customer relationships inform us of individual customer circumstances.</p>	<p>◀▶</p> <p>Lead responsibility: Chief Financial Officer</p> <p>There were reasonably stable macroeconomic conditions in all our markets in 2017. Current indicators suggest our markets will deliver positive GDP growth, low but increasing inflation and subdued interest rates in 2018.</p> <p>We continue to monitor the impact of Brexit and other geopolitical events on financial markets and macroeconomic conditions.</p>
9. Safety <p>The risk of personal accident to, or assault on, our agents or employees.</p> <p>Objective We aim to maintain adequate arrangements that reduce the risks to as low as is reasonably practicable.</p>	<p>2 3</p> <p>A significant element of our business model involves our agents and employees interacting with our customers in their homes or travelling to numerous locations daily. Their safety is paramount to us.</p> <p>Likelihood The likelihood of an individual incident depends on many factors, including the local environment. We strive to ensure that our agents and employees can carry out their work without risk of harm.</p>	<p>Group and market committees and annual safety survey.</p> <p>Bi-annual risk mapping for each agency including mitigation planning and field safety training.</p> <p>Annual self-certification of safety compliance by managers.</p> <p>Quarterly branch safety meetings.</p> <p>Role-specific training and competence matrix.</p> <p>Safety management systems based on internationally recognised standards.</p>	<p>▲</p> <p>Lead responsibility: Chief Executive Officer</p> <p>We continued to make progress in our safety management systems and maintained our Occupational Health and Safety Assessment Series (OHSAS) certification in all home credit businesses.</p> <p>Safety continues to be a significant area of focus for the Group.</p>

1 Growth focus – IPF Digital

2 Growth focus – Mexico home credit

3 Returns focus – European home credit

▲ Risk environment improving

◀▶ Risk environment remains stable

▼ Risk environment worsening

Risk

Relevance to strategy

Mitigation

Commentary

10. Credit

The risk of the Group suffering financial loss if its customers fail to meet their contracted obligations.

Objective

We aim to maintain credit and collections policies and regularly monitor credit performance.



With the expansion of our IPF Digital and Mexico home credit businesses, it is important that we retain control of credit losses in order to achieve our intended returns. For the European home credit businesses we focus on writing profitable business to optimise returns.

Likelihood

Our control environment means that we will see issues quickly and the systems in place mean that we can change credit settings quickly, and therefore the likelihood of suffering large losses is low.

Weekly credit reporting on the quality of business at time of issue as well as the overall portfolio. This feeds into weekly performance calls between each business and the Group credit director. In addition, there are monthly local credit committees, a monthly Group credit committee and monthly performance calls between each business and the Group management team.

When a new change is introduced, the credit systems allow for a testing approach that gives direct comparison of the current 'champion' regime against the new 'challenger'.



Lead responsibility: Chief Executive Officer

Credit risk in our European home credit markets is stable.

Our Mexico home credit business delivered improved growth during the first half of 2017 but there was some instability from September following two earthquakes which hit the country. Improved performance returned in Q4.

The credit risk environment in our established IPF Digital markets is generally stable with very low loss rates. In our new markets, there have been rapid changes and learnings applied to credit settings resulting in strongly improving credit quality.

11. Funding, market and counterparty

The risk of insufficient availability of funding, unfavourable pricing, a breach of debt facility covenants, or that performance is significantly impacted by interest rate or currency movements, or failure of a banking counterparty.

Objective

We aim to maintain a robust funding position, and to limit the impact of interest rate and currency movements and exposure to financial counterparties.



Funding at appropriate cost and on appropriate terms, and management of financial market risk, is necessary for the future growth of the business.

Likelihood

Board-approved policies require us to maintain a resilient funding position with good headroom on undrawn bank facilities, appropriate hedging of market risk, and appropriate limits to counterparty risk.

Adherence to Board-approved policies monitored through the Treasury Committee, finance leadership team and regular Board reporting.

Funding plans presented as part of budget planning.

Strong relationships maintained with debt providers.



Lead responsibility: Chief Financial Officer

Our business has a strong funding position with good headroom on undrawn bank facilities and long-term funding in place.

Hedging of market risk and limits on counterparty risk in line with policies.

Further detail on our funding position is included in the financial review on pages 31 to 35.

Viability statement

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for three years from the date of this report. This assessment has been made with reference to the Group's current financial position, its prospects, its strategy and its principal risks, as set out in the Strategic Report.

The Group undertakes an annual business planning and budgeting process that includes an update to strategic plans together with an assessment of expected performance, cash flows, funding requirements and covenant compliance. The plan is stress-tested in a variety of downside scenarios that reflect the crystallisation of the Group's principal risks with particular reference to regulatory, taxation and funding, market and counterparty risks as outlined on pages 39, 40 and 43, respectively and the consequent impact on future performance, funding requirements and covenant compliance. Consideration has also been given to the availability of mitigating

actions that could be taken to reduce the impact of the identified risks.

The Directors have determined that three years is an appropriate period over which to provide its viability statement because it aligns with the Group's business planning horizon. In making this statement, the Directors have assumed that both the wholesale funding markets remain accessible so as to allow the Group's existing arrangements to be refinanced and further funding put in place if necessary, and that the legal, taxation and regulatory framework allows for the provision of short-term credit to the markets in which the Group operates.

Approved by the Board.

Gerard Ryan
Chief Executive Officer

1 March 2018

Good governance supports strategic delivery

The Board ensured that, despite a challenging external environment throughout 2017, the business remained true to its purpose and values of providing straightforward consumer finance responsibly and respectfully.



Dear shareholder,

The landscape within which the Board and its Committees worked during 2017 continued to be one of regulatory challenge, robust competition and evolving customer preferences. These factors underpinned Board discussions when reviewing and challenging the formulation and implementation of the Group's strategy.

Q. What was the focus of the Board in 2017?

Regulatory developments in Poland and Romania and corporation tax matters in Poland have been areas of particular focus. Board discussions have been informed by regular updates provided first-hand by David Parkinson and Botond Szirmák, Regional Managers for our Northern Europe and Southern Europe home credit businesses respectively.

The Board was assisted in its oversight of regulatory and tax matters by the Audit and Risk Committee, chaired by Richard Moat, through the Committee's review of compliance testing and mitigation planning under the Group's compliance and risk management frameworks.

Our values

Our values have remained constant since we listed on the London Stock Exchange in 2007 and they are embedded across our organisation irrespective of role or geographical location. They are the core principles that guide the way we build our business and serve our customers. Our values help differentiate our business and provide reassurance to our customers that they have made the right decision in choosing products and services from us.



We are responsible
Being open and transparent in everything we do



We are straightforward
Taking due care in all our actions and decisions



We are respectful
Treating others as we would like to be treated

"Effectively navigating regulatory challenge remains a key focus for the Board."

Dan O'Connor
Chairman

Q. How did the Board provide oversight of operational issues in the business during 2017?

A key area of operational focus in 2017 was the continued growth momentum in our home credit business in Mexico in the first half of the year. This built on the improved performance we saw in the second half of 2016. Unfortunately, progress was understandably impeded by the earthquakes which hit Mexico in September that resulted in a contraction in credit issued and a weaker collections performance. First and foremost, the Board was keen to make certain that support was in place for all our employees and agents, and then to see the right actions were taken to enable the business to return to normal operations as quickly and safely as possible. I am pleased to say that the business recovered well from the disruption and trading improved from the second half of November 2017.

Q. How did the Board support the Group's focus on efficiency through the use of technology in 2017?

Modernising the business through the use of technology remains key to delivering our long-term success. Assisted by the Technology Committee, chaired by John Mangelaars, the Board continued to support the drive to increase IPF's technology-based capabilities in line with its broadening product range and channel choices. On behalf of the Board, the Committee also oversaw the centralisation of our IT function, further development of the MyProvi mobile handheld technology for agents and the appointment of the Group's first Chief Data Officer as part of our drive to add value to the organisation through the use of advanced data and analytics.

Q. How does the Board ensure that IPF has the right people in place to deliver its strategic objectives?

An integral part of the Board's oversight role is to ensure that effective succession planning processes are in place together with initiatives to enhance the Group's leadership team. In February 2017, we were pleased to invite Justin Lockwood to join the Board as an executive director, and later in the year saw the strengthening of the senior executive team with the appointment of a new Group HR Director and Chief Legal Officer and Company Secretary. We also continued our search to find the right individual to take over the role of Senior Independent Director.

However, having the right people in place is not simply about identifying people with the right skills and experience. It is about creating a cohesive team with shared values and ethics. To this end, the Board supported work to embed the Company's ethical standards across the Group and to support our Aspire programme aimed at developing our pool of future leaders.

You will find greater detail on the work of the Board and its Committees in the pages that follow.

Dan O'Connor
Chairman

Compliance with the UK Corporate Governance Code (the 'Code')

International Personal Finance plc applied the main principles and complied with the provisions set out in the Code, which was published by the Financial Reporting Council ('FRC') in April 2016, and which applied throughout the financial year ended 31 December 2017. The Code is available on the FRC's website: www.frc.org.uk. We have a secondary listing on the Warsaw Stock Exchange but consider reporting in line with the Code as our primary obligation in terms of this year's Annual Report and Financial Statements.

For more information on our compliance with the UK Corporate Governance Code see pages 78-81

Leadership



The Board, led by the Chairman, provides leadership and strategic direction to the Group, with non-executive directors providing constructive challenge to management.

For more information see page 78-79

Effectiveness



The Board comprises individuals with a diverse range of knowledge, skills, experience and independence to enable it to effectively oversee the Group's strategic direction.

For more information see pages 79-80

Accountability



The Board, with the support of the Audit and Risk Committee, is responsible for presenting a fair, balanced and understandable assessment of the Company's position and prospects; maintaining sound internal control systems and risk management processes; and maintaining an appropriate relationship with the Company's auditor.

For more information see page 80

Remuneration



The Board, with the support of the Remuneration Committee, ensures that executive directors' remuneration is transparent and designed to promote the long-term success of the Company, ensuring performance-related elements are transparent, stretching and rigorously applied.

For more information see page 80

Relations with shareholders



The Board and its members meet with major shareholders throughout the year and there is an active programme of investor engagement to update investors on the Group's strategy, results and material developments, and to receive shareholder feedback.

For more information see pages 80-81

The governance report includes:

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Our Board and Committees



1. Dan O'Connor

Chairman, age 58

N

Length of service: 3 years and 2 months

Appointments and qualifications: Dan was previously a non-executive director of CRH plc and Chairman of Allied Irish Banks plc from July 2009 to October 2010. In addition, Dan spent 10 years as CEO of GE Consumer Finance Europe and was a Senior Vice President of General Electric. He was also a non-executive director of one of Turkey's largest banks, Garanti Bank. Dan is a fellow of the Institute of Chartered Accountants in Ireland and has a Master's Degree in Accounting. He is a non-executive director of Glanbia plc and Activate Capital Ltd.

Key strengths and contributions: Dan has over 30 years' experience in large international and financial services businesses and provides strong strategic leadership in his role as Chairman.

2. Gerard Ryan

Executive director and Chief Executive Officer, age 53

D E N

Length of service: 6 years and 1 month

Appointments and qualifications: Gerard was previously CEO for Citigroup's consumer finance businesses in the Western Europe, Middle East and Africa region. He was a director of Citi International plc, Egg plc and Morgan Stanley Smith Barney UK. Earlier in his career, Gerard was CFO of Garanti Bank, Turkey and CEO of GE Money Bank, Prague. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Key strengths and contributions:

Gerard has over 25 years' multi-country experience in consumer financial services and provides the Company with strong leadership.

Committee membership key

- A** Audit and Risk Committee
- D** Disclosure Committee
- E** Executive Committee
- N** Nomination Committee
- R** Remuneration Committee
- T** Technology Committee

3. Justin Lockwood

Executive director and Chief Financial Officer, age 48

D E

Length of service: 1 year

Appointments and qualifications: Justin was the Company's Group Head of Finance for seven years before being appointed to the Board as Chief Financial Officer. He previously held senior finance roles at Associated British Ports and Marshalls plc, having spent the first 10 years of his career working for PwC in the UK and Australia. He is a member of the Institute of Chartered Accountants and graduated from the University of Cardiff with a degree in Business Administration.

Key strengths and contributions: Justin has over 15 years' experience in a variety of senior financial management roles and has a detailed understanding of the Group's businesses and its markets. He provides the Company with strong financial leadership.

4. Tony Hales CBE

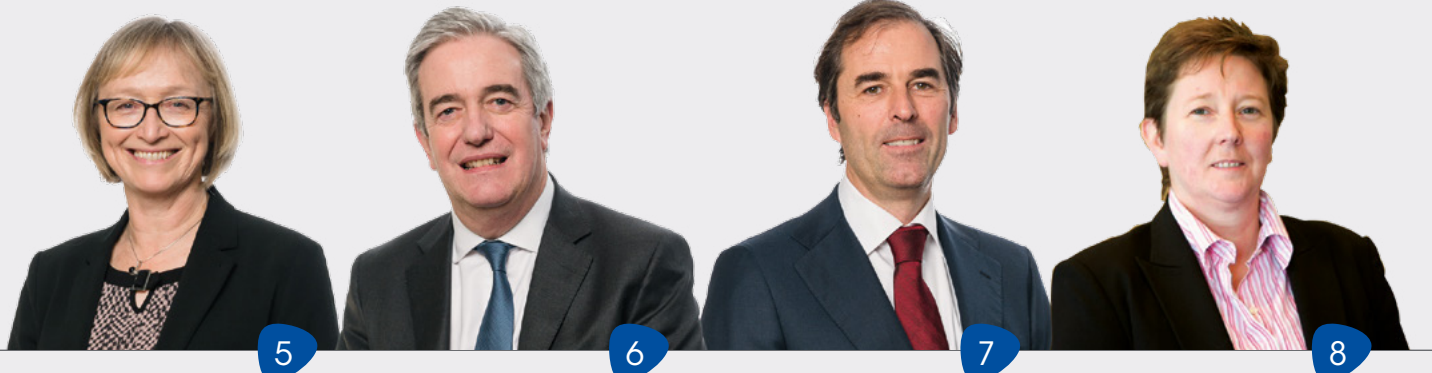
Senior independent non-executive director, age 69

A N R

Length of service: 10 years and 7 months

Appointments and qualifications: Tony was previously Chairman of Canal & River Trust, Chief Executive of Allied Domecq plc, Chairman of Workspace Group plc and NAAFI, and a non-executive director of Provident Financial plc, Welsh Water plc, Aston Villa plc, HSBC Bank plc and Reliance Security Group plc. He graduated in Chemistry from the University of Bristol and is currently Chairman of the Greenwich Foundation, a non-executive director of Capital & Regional plc, a board member of the Associated Board of the Royal Schools of Music (ABRSM) and The Services Sound and Vision Corporation. He is also a director of Welsh National Opera Limited and chairs NAAFI Pension Fund Trustees.

Key strengths and contributions: Tony has strong business expertise, having been a chairman and non-executive director in profit and non-profit sectors. He has extensive knowledge of our business as well as having chaired and been a member of various committees since appointment.



5. Jayne Almond

Independent non-executive director, age 60

A R

Length of service: 2 years and 8 months

Appointments and qualifications: Jayne set up equity release firm Stonehaven and was CEO and then Executive Chairman until 2014. She has previously been Managing Director of Barclays Home Finance business, Group Marketing Director and Strategy Director at Lloyds TSB, Managing Director of Lloyds TSB's European Internet banking business and a senior partner at LEK Consulting. Jayne graduated in Philosophy, Politics and Economics from the University of Oxford. She is also the Chair of Butterfield Mortgages Ltd.

Key strengths and contributions: Jayne has over 20 years' experience in financial services and is an experienced non-executive director. She has a strong background in consumer finance, marketing and strategy.

6. Richard Moat

Independent non-executive director, age 63

A R T

Length of service: 5 years and 8 months

Appointments and qualifications: Richard was previously Deputy CEO and CFO of Everything Everywhere Limited, the UK's largest mobile telecoms company. He was Managing Director of T-Mobile UK Limited and Chief Executive of Orange Romania SA, Orange Denmark A/S and Orange Thailand Limited. He was previously Chair of the ACCA Accountants for Business Global Forum and Trustee of the Peter Jones Foundation. He holds a Diploma in Corporate Finance and Accounting from London Business School and has a Master's (Honours) degree in Law from St Catharine's College, Cambridge. He is a Fellow of the Association of Chartered Certified Accountants. He is currently Chief Executive Officer of Eir Limited, and an advisory board member of Tiaxa, Inc. Chile.

Key strengths and contributions: Richard has more than 25 years' international telecoms experience in senior management roles and provides financial and operational expertise along with international experience.

7. John Mangelaars

Independent non-executive director, age 53

N T

Length of service: 2 years and 7 months

Appointments and qualifications: John worked for Microsoft for over 20 years specialising, in more recent years, in the sales and marketing of online products, MSN Messenger, Hotmail and Bing. He graduated from the Higher School of Economics in The Hague, Netherlands, with a Bachelor in Information and Communication Technology (B ICT) and is currently the CEO of online travel agency Travix International.

Key strengths and contributions: John has considerable experience in sales and e-commerce, which will support expansion of our digital lending business and the Company's objective to increase its technology capabilities.

8. Cathryn Riley

Independent non-executive director, age 55

N R T

Length of service: 4 years

Appointments and qualifications: Previously, Cathryn was Group Chief Operations Officer at Aviva plc. Other roles with Aviva included Group CIO, UK Commercial Director, COO and Customer Experience Director of UK Life, plus she was chair of Aviva Healthcare UK Ltd, Aviva Global Services and Hill House Hammond. Her previous roles included General Manager of Transformation at BUPA and a principal consultant in the financial services division at Coopers & Lybrand. She has an MA in Manpower Studies, completed CeDEP's General Management Programme, was a graduate of the Institute of Personnel/HR Management and is currently a non-executive director of Chubb European Group Ltd, Chubb Underwriting Agencies Ltd, The Equitable Life Assurance Society as well as Chair of AA Insurance Services Ltd.

Key strengths and contributions: Cathryn has over 20 years' experience in insurance and financial services, together with international roles. She is an experienced non-executive director, having sat on the board of The Equitable Life Assurance Society since 2009 and also serving as Chair of its Remuneration Committee. She brings a wealth of experience in major IT transformation programmes, implementing new distribution channels and customer service.

Dear shareholder,

During the year, the Board provided effective oversight in support of management's navigation of tax matters in Poland, regulatory matters in Poland and Romania, and the improvement in the performance of our home credit business in Mexico. In addition, the Board oversaw the delivery of the Group's strategy, which is to provide a high level of service to customers and optimise returns generated by our European home credit businesses to reinvest in our growth businesses and deliver shareholder returns. As part of this, and following careful consideration, the Board approved the sale of our Bulgarian home credit business, which was completed in June. This disposal was undertaken to enable us to focus on our larger home credit businesses and IPF Digital.

In 2017, the Board and its Committees carried out an internal evaluation of its performance, facilitated by the Company Secretary. A summary of the Board evaluation feedback and its action plan is shown on page 49.

In progressing its 2017 objectives, the Board was supported by its Committees and I thank my colleagues for their steadfast support throughout the year. Further details of the work of the Board and its Committees can be found in the following pages.

Dan O'Connor
Chairman

2017 objectives

- Monitor the impacts of potential new regulation and tax audits on the Polish business and overall Group trajectory.
- Continue to oversee the turnaround of performance in Mexico and obtain evidence that this is sustainable and maximises growth.
- Support the growth of IPF Digital, gaining assurance that it has the financial and leadership resources commensurate with its growth ambitions.
- Continued monitoring of leadership, development and succession planning through our People and Organisational Planning process.
- Focus on efficiency through the use of technology, reviewing commitment to expenditure on technology.
- Support the executive team to deliver clear and consistent strategic communications to external stakeholders.



2017 progress

- Effective oversight of the management of regulatory and corporation tax matters in Poland, with good returns being maintained by the business, consistent with the Group strategy.
- Close monitoring of the implementation of tighter creditworthiness requirements and preparation for entry into the Special Registry in Romania.
- Effective oversight and management challenge in support of the performance recovery in Mexico pre- and post-earthquakes.
- Effective oversight and support for the managed growth of IPF Digital, balancing increasing revenue with credit quality and profitability.
- Review of the Group's new people strategy to strengthen leadership, develop talent and ensure succession management.
- Together with the Technology Committee, oversight of the implementation of the Group's technology strategy.
- Support and guidance to executive directors in the formulation of appropriate and helpful investor communications on Group strategy.



2018 objectives

- Continue to monitor the impacts of, and mitigation planning for, potential new regulation.
- Continue to monitor the impacts of tax audits on the Polish business and any resultant impacts on Group funding.
- Support the development and/or deployment of technology across the business with emphasis on the customer experience, customer retention and profitability.
- Support the development, testing and deployment of new products.
- Monitor continued performance improvement and profitable growth in Mexico.
- Continue to support the growth of IPF Digital and monitor its financial and leadership resources through the application of a robust control framework.
- Support the Group's new people strategy in the furtherance of leadership, development and succession planning.
- Continue to monitor the development and returns generated by our European home credit businesses.
- Monitor the strength of the Group's balance sheet and the development of our longer-term funding strategy.



 Our full Directors' report can be found on pages 78-87

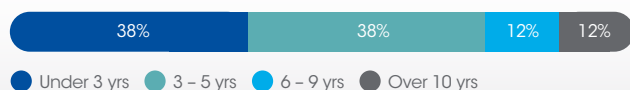
"Regulation and performance monitoring were at the heart of Board discussions in 2017."

Dan O'Connor
Chairman

Board composition (%)*



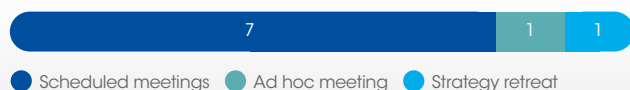
Board tenure (%)*



Board diversity (%)*



Board meetings 2017



* As at 1 March 2018

Attendance at meetings of the Board and Board committees in 2017

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Technology Committee
Jayne Almond	8/8	6/6		4/4	
Tony Hales	8/8	6/6	2/2	4/4	
Justin Lockwood ¹	6/6				
John Mangelaars	8/8		2/2		4/4
Richard Moat ²	8/8	6/6		4/4	2/4
Dan O'Connor	8/8		2/2		
Cathryn Riley	8/8		2/2	4/4	4/4
Gerard Ryan	8/8		2/2		

1. Justin Lockwood joined the Board on 23 February 2017.

2. Richard Moat did not attend two Technology Committee meetings as these conflicted with existing business commitments.

Board and Committee evaluation

In 2017, the Board and its Committees carried out an internal evaluation of their performance facilitated by the Company Secretary. Details of the process followed can be found on page 80.

2017 action plan themes

Communication of strategy

Update on 2017 action plan areas

- Good communication of strategy both internally and externally including:
 - successful strategy roadshow across the markets by the CEO in 2017; and
 - successful 'Managing for returns' roadshow by CFO in 2017.
- Effective strategy update meeting held in June 2017 and commended in 2017 Board evaluation feedback.
- Improvement in the communication of results recognised in the 2017 Board evaluation feedback.

Strength of the leadership team

- Appointments made to the leadership team in 2017 to support our ambition to grow the business to its maximum potential and respond positively to a changing external environment:
- James Ormrod, Chief Legal Officer and Company Secretary, a dual-qualified UK solicitor and US attorney, with experience of global, divisional and regional general counsel roles; and
- Lyndsey Hamilton-Scott, Group HR Director, with extensive experience of large-scale organisation transformation and senior executive assessment.

2017 evaluation results

Positive feedback on:

- the robustness of Board discussions;
- the balance between non-executive challenge and support;
- the assessment of risk and risk appetite; and
- the way emerging issues have been handled and communicated.

Areas for development:

- more time to be devoted to strategy;
- the pace of business transformation in light of challenges to our operating model; and
- the strategic importance of technology and the role of the Technology Committee.

2018 action plan themes

Key themes are:

- continued increased focus on strategy;
- accelerating the pace of business transformation;
- maintaining the increased focus on technology; and
- continued strengthening of the leadership team.

Matters considered by the Board in 2017

January

- Discussed proposed changes to the total cost of credit cap in Poland.
- Reviewed the Polish Tax Chamber's decision.
- Board evaluation results and action plan for 2017.
- Appointment of interim Company Secretary and amendment to Committee membership.

February

- Update on Polish tax and regulatory matters.
- 2016 full-year financial results, Annual Report and Financial Statements, viability statement, and 2017 AGM notice reviewed and approved.
- Approval of the Audit and Risk Committee's recommendation that the 2016 Annual Report and Financial Statements, taken as a whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess performance, business model and strategy.
- Final dividend recommendation agreed.
- Approved the update of the Euro Medium Term Note Programme.
- 2017 budget reviewed and further information requested to understand the performance of the business in Romania.
- Update on IPF Digital.
- Group Schedule of Key Risks and Risk Appetite Statements reviewed and approved.
- Reappointment of Deloitte as the auditor of the Company approved.
- Chair Review Survey considered by non-executive directors.
- Appointment of Chief Financial Officer.

May

- Discussed activity to monitor proposed changes to the total cost of credit cap in Poland.
- Considered senior management team recruitment.
- Discussed cyber security.
- Reviewed Romania trading performance.
- Q1 2017 trading update statement reviewed and approved.
- Shareholder voting guideline reports from IVIS, ISS and PIRC reviewed.

June (ad hoc meeting)

- Appointment of Company Secretary.

June

- Board strategy update.

July

- Update on proposed changes to the total cost of credit cap in Poland.
- Reviewed Romania trading performance and regulatory matters.
- 2017 half-year financial results reviewed and approved.
- Declaration of interim dividend approved.
- Group Schedule of Key Risks reviewed and approved.
- Issue of invitations to employees under the Save As You Earn Plan approved.

September

- HR functional strategy update.
- Discussed Romania regulatory matters.
- Considered the Group's General Data Protection Regulation implementation programme.
- Debated business development opportunities.

October

- Reviewed business development opportunities.
- Q3 2017 trading update statement reviewed and approved.

December

- Approval of the Group tax strategy.
- Business plans and budgets for 2018 reviewed and approved.
- Outcome of the 2017 triennial valuation of The International Personal Finance plc Pension Scheme noted; actions to de-risk the Scheme and recovery plan approved.
- Board evaluation results and action plan for 2018.

Standing agenda items were discussed at each scheduled meeting comprising reports from the Chief Executive Officer, Chief Financial Officer and Committee Chairs; and a review of performance against KPIs. Tax and regulatory matters relating to the Polish market were also discussed at all scheduled meetings.



Details of matters reserved to the Board can be viewed online at www.ipfin.co.uk

Dear shareholder,

During 2017, the Nomination Committee focused on ensuring that Board membership remained appropriate. In February 2017, we recommended to the Board the appointment of Justin Lockwood as an executive director and Chief Financial Officer.

Our search for a new Senior Independent Director to replace Tony Hales also continued during the year. This is a role which the Committee considers critical for good governance and we are committed to finding a candidate with the appropriate skill-set, qualifications and capabilities to provide the breadth of experience and depth of insight that we have come to expect from Tony.

Additionally, Jayne Almond, one of our non-executive directors, has let us know that she will not be seeking re-election at the Company's upcoming Annual General Meeting (on 4 May 2018) and that she will step down with effect from the conclusion of the AGM. Jayne has served on the Company's Board since June 2015 and in that time has provided valuable and insightful guidance and challenge. I would like to thank her for her excellent contribution and support. We have initiated a search for a new non-executive director to replace Jayne.

 **For Board statistics**
see page 49



Nomination Committee composition (%)



Committee members

Dan O'Connor

Chairman

Member for 3 years and 1 month

Tony Hales

Senior independent non-executive director

Member for 10 years and 7 months

John Mangelaars

Independent non-executive director

Member for 2 years and 5 months

Cathryn Riley

Independent non-executive director

Member for 2 years and 10 months

Gerard Ryan

Executive director and Chief Executive Officer

Member for 5 years and 11 months

2017 objectives

- Appoint a successor for the Senior Independent Director role.
- Implement the action plan from the 2016 Board evaluation.



2017 progress

- Completed the search for a new Chief Financial Officer, appointed in February 2017.
- Continued the search for a new Senior Independent Director.



2018 objectives

- Appoint a new Senior Independent Director.
- Appoint a new non-executive director.
- Review composition of the Board to reflect growth in IPF Digital.



"The Nomination Committee recommended the appointment of a new Chief Financial Officer in 2017."

Dan O'Connor
Committee Chairman

Overview

Role

The Committee's terms of reference are available on our website and some of the key responsibilities include:

- reviewing the size, structure and composition of the Board;
- assisting the Board in selecting and appointing any new directors and recommending their appointment to the Board; and
- succession planning.

Composition

The Committee must have at least three members, the majority being independent non-executive directors. Members can also include the Chairman and the Chief Executive Officer. Three members form a quorum. Full biographical details of members, including qualifications, can be found on pages 46 and 47.

Boardroom diversity

We recognise and embrace the benefits of having a diverse Board, and see increasing diversity at Board level as an essential element in achieving our strategy. Our Board diversity policy, sets out our approach to ensuring we have a diverse Board and was last revised in June 2015. It is considered to remain appropriate.

In reviewing Board composition, the Committee considers the benefits of all aspects of diversity, including differences in skills, regional and industry experience, race, gender and other qualities of directors. These differences are considered in determining the optimum composition of the Board and, when possible, we believe should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

Currently, we consider non-executive candidates from a wide pool including those with little or no listed company board experience and review a long list of candidates, 50% of whom we aim to ensure are women. In addition, we only engage executive search firms, which have signed up to the voluntary code of conduct on gender diversity and best practice.

The policy was applied in our recruitment activities in 2017 and executive search firms asked to provide candidates in line with the above criteria.

The stated objective of our policy is to ensure that our Board includes at least two female directors, a diversity commitment we have continued to meet. However, this commitment will no longer be met when Jayne Almond steps down from the Board with effect from the conclusion of our 2018 AGM. It remains our objective to meet this commitment in the future.

Activities in 2017

Meetings

The Committee met twice during the year. Attendance at meetings can be found on page 49.

Board changes

As reported in our 2016 Annual Report and Financial Statements, the Committee recommended to the Board the appointment of Justin Lockwood as executive director and Chief Financial Officer.

Board composition and succession

The Committee keeps under review the size, structure and composition of the Board and its Committees, to ensure that they comprise individuals with a range of complementary skills. It also considered Board-level succession planning during the year. This was particularly relevant recognising that it is more than 10 years since Tony Hales was first appointed to the Board as a non-executive director. He has also served as Senior Independent Director since May 2010. The Committee continued the search for a new non-executive director to fill this role. This is being carried out in conjunction with recruitment specialist, Egon Zehnder, and will continue in 2018. Egon Zehnder has no other connection with the Company. In the meantime, the Committee asked Tony to continue as a director with a view to stepping down when a suitable replacement is appointed. I am pleased to say that Tony has agreed and will put himself forward for re-election at our upcoming AGM.

Election and re-election of directors

Directors are appointed to the Board following a robust selection process and on the Committee's recommendation. The performance of each director is assessed on an annual basis as part of the Board evaluation process. In addition, a review of the independence of each non-executive director is undertaken and consideration given to the attendance of each director at Board and Committee meetings. Based on these reviews, the Board recommends the re-election of all directors who are standing for election at the 2018 AGM.

Tenure of directors

As noted above, it is more than 10 years since Tony Hales was first elected to the Board. Consideration was given to his independence as described on page 78. An analysis of the tenure of all current directors is shown on page 49 and their individual length of service is shown in their biographies on pages 46 and 47.

Further activities

In December 2017, the Committee also reviewed and approved Board and Committee meeting attendance, which can be found on page 49.



Dan O'Connor
Chairman

Dear shareholder,

The Committee focused its attention throughout 2017 on compliance, regulatory and taxation challenges, and on information security and business continuity planning. The Committee also monitored the management of IFRS 9 implementation risk and it closely followed the development of significant enhancements to the risk management process across the business, with a continuing emphasis on its ability to identify and assess emerging risks. During 2018, the Committee will continue to focus closely on the management of regulatory risk, particularly in our European markets.

Audit and Risk Committee composition (%)




● Independent non-executive directors

Committee members

Richard Moat
Chairman and independent non-executive director
Member for 5 years and 5 months

Jayne Almond
Independent non-executive director
Member for 2 years and 5 months

Tony Hales
Senior independent non-executive director
Member for 10 years and 7 months

 **For insights into our risk management process**
see pages 36-43



2017 objectives



- Review the approach to delivering efficiency and optimising the value generated by our home credit business through agent mobile technology.
- Monitor developments in respect of appeals made against the 2008 and 2009 Polish tax audit decisions and the status of the open audit of 2010.
- Approve the Group's technical accounting approach to the implementation of IFRS 9 and review progress on the broader implementation plan.
- Evaluate the design of our cyber security controls, which preserve the confidentiality, integrity and availability of the Group's information and technology assets.
- Further consideration of the continuing approach to modernising the business through technology with specific reference to the implementation of a single digital loan platform.
- Assess the adequacy of actions taken to deliver sustainable growth in Mexico.
- Review actions taken to improve cost-efficiency within the business.

2017 progress



- Monitored developments relating to the ongoing Polish tax audits.
- Monitored the management of the IFRS 9 implementation risk.
- Evaluated the cyber security framework of controls over information technology infrastructure, applications and data and our ability to act upon indicators of compromise.
- Audited the controls in place to manage the Mycollections component of the agent mobile technology solution and made recommendations for improvement.
- Monitored progress to implement a single digital loan platform across the Group.
- Audited efforts to stabilise the ongoing execution of the growth strategy for Provident Mexico in the early part of the year and made recommendations.
- Actions taken to improve cost-efficiency within the Provident Mexico business were initially reviewed and will be further evaluated in 2018.
- Monitored the Group-wide compliance framework implementation to increase maturity of compliance controls.

"The Committee continued to monitor closely significant regulatory and taxation matters, particularly in our European markets, and actively encouraged a further strengthening of the Group's compliance framework."

Richard Moat
Committee Chairman

2018 objectives

- Ensure that the processing of personal data meets the requirements of the new General Data Protection Regulation.
- Review effectiveness of contingency plans to respond to unanticipated legal and regulatory changes.
- Confirm the Group's financial control framework ensures reliable financial reporting.
- Monitor developments in field operational processes following introduction of agent technology.
- Assess the impact and effectiveness of organisational changes of Group oversight functions.
- Evaluate the effectiveness of assurance mechanisms to manage People risk.
- Review actions taken to improve cost-efficiency within the business.
- Evaluate progress made in the implementation of a new compliance monitoring framework.
- Continue to closely monitor effectiveness of the defences currently in place to prevent the Group becoming a victim of cyber crime.
- Ensure that the developing compliance framework identifies and addresses key areas of risk as they emerge.



Overview

Role

The objective of the Committee is to oversee the Group's financial reporting, internal controls and risk management procedures, together with the work performed by the external auditor and the internal audit function. The Committee's terms of reference are available on our website. Its main responsibilities are to:

- monitor the Group's systems of internal control, including financial, operational and compliance controls and risk management systems, and to perform an annual review of their effectiveness;
- monitor the integrity of the Financial Statements of the Company and the formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them;
- provide advice to the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- make recommendations to the Board, for the Board to put to shareholders in general meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve its terms of appointment;
- review and monitor the objectivity and independence of the external auditor and the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- review and approve the internal audit programme for the year and monitor the effectiveness of the internal audit function in the delivery of its plan; and
- keep under review the Group Schedule of Key Risks and consider the principal risks (see pages 38 to 43) facing the Group and their mitigation.

Case study: Cyber security

In common with most businesses our assessment was that the level of threat from the external environment increased this year and consequently the Audit and Risk Committee monitored the Company's response closely.

The annual internal audit plan included an in-depth evaluation of the adequacy of key cyber security controls over IT infrastructure, applications and data. This was an important review of the Cyber Security Framework, the state of its vulnerability management and the Company's ability to act upon indicators of compromise. We were encouraged with the results of this internal audit, particularly the validation of management's cyber security incident response plan.

However, we felt that we needed to go one step further and consequently we strongly supported management's initiative to commission an ethical hacking of the Company's physical and logical infrastructure by a prominent cyber security consultancy. This was a very successful test which gave us insights into our network which we had not previously seen and some very clear guidance as to how we can protect the business better. We will extend this approach across the business during 2018.



Gerard Ryan (CEO) receives an update on IPF's cyber security defences.

Composition

The Committee comprises three independent non-executive directors and is chaired by Richard Moot, a Fellow of the Association of Chartered Certified Accountants, who has relevant and recent experience for the purposes of the UK Corporate Governance Code (the 'Code'). The other non-executive directors are Jayne Almond, who has over 20 years of experience in financial services, and Tony Hales, who has strong business expertise and extensive knowledge of our Group. Jayne Almond will cease to be a member of the Committee when she steps down from the Board with effect from the conclusion of our 2018 AGM. Full biographical details of members, including qualifications, can be found on pages 46 and 47.

The external auditor, Deloitte LLP, the Chief Executive Officer, the Chief Financial Officer, and the Head of Internal Audit are invited to attend all meetings. Periodically, senior management from across the Group is invited to present on specific aspects of the business. The Committee also meets from time to time with the external auditor, without an executive director or member of the Group's senior management being present, to discuss the external audit process.

Functionally, the Head of Internal Audit reports directly to the Chairman of the Committee. For routine administrative matters, the Head of Internal Audit's principal contact is the Chief Financial Officer. The Head of Internal Audit operates within a clearly defined remit and has good linkage to the rest of the organisation.

The Committee has monitored the effectiveness of the internal audit function throughout the year.

Activities in 2017

Meetings

The Committee met six times during the year, twice to consider risk and four times to consider audit-related matters. Attendance at meetings can be found on page 49.

Financial reporting

The Committee reviewed and considered the following areas in respect of financial reporting and the preparation of the half-year and full-year Financial Statements:

- the appropriateness of accounting policies used;
- compliance with external and internal financial reporting standards and policies;
- significant judgements made by management;
- disclosures and presentations; and
- whether the Annual Report and Financial Statements are fair, balanced and understandable.

In carrying out this review, the Committee considered the work and recommendations of management. In addition, the Committee received reports from the external auditor setting out its view on the accounting treatments and judgements underpinning the financial statements. The significant judgements considered by the Committee were:

- **Impairment of receivables:** the key area of judgement in respect of impairment provisions made against customer receivables in the home credit division and in IPF Digital is the predictive accuracy of statistical models used to estimate future customer default rates and expected future timing of cash flows in respect of each portfolio. At both the half-year and full-year results, the Committee considered a paper prepared by management summarising the work performed to test the continued predictive capacity of these statistical models and to update them where appropriate. This paper also addressed the use of post-model overlays in instances where the predictive capacity testing indicated that they are required. The external auditor performed audit procedures on impairment provisioning and reported its findings to the Committee.
- **Revenue recognition:** the judgement in respect of revenue recognition is the methodology used to calculate the effective interest rate. The external auditor performed procedures to assess management's calculations and assumptions used to calculate the effective interest rate and reported its findings to the Committee.
- **Provision for uncertain tax positions:** IPF operates in multiple jurisdictions where the taxation treatment of transactions is not always certain. Management therefore is required to make judgements, based on internal expertise and external advice, on the methodology to be adopted for accounting for uncertain tax positions. A key area of focus in 2017 was the basis of the judgements taken relating to the accounting treatment adopted for the payments in respect of the Polish tax audits of the 2008 and 2009 financial year. The external auditor performed procedures to assess management's judgements and reported its findings to the Committee.
- **Regulation:** the business is subject to regulatory scrutiny in multiple jurisdictions and at times it is appropriate to make provision for potentially adverse rulings by regulatory authorities. The Committee received reports from the Group legal function outlining the various regulatory and other similar issues and management's approach.

Internal control and risk management

While the Board is responsible for the Group's systems of internal control, including risk management, the review of its effectiveness is delegated to the Committee. It is recognised that any system can provide only reasonable and not absolute assurance against material misstatement or loss. The Committee reviews and approves the Group Schedule of Key Risks, which describes the principal risks facing the business. The Board then formally considers the Schedule on a six-monthly basis and approves risk appetite annually. The internal control environments in place to mitigate the impact of each risk are monitored by the Committee on a regular basis, as are the principal actions being taken to improve them. The Committee requests additional presentations on key business areas as necessary to supplement its understanding of control environments in place. The areas covered by these in 2017 are referred to in the 'Training' section on page 57. The internal controls in relation to the preparation of the Consolidated Financial Statements are outlined on page 85.

In particular, during 2017 the Committee monitored legal and regulatory compliance and tax issues. Specifically, the Committee focused on the progress of the Polish tax audits for 2008, 2009 and 2010 together with the new Polish corporation tax law reform that became effective on 1 January 2018 and received, reviewed and challenged regular updates from management.

With regard to the proposals published by the Polish Ministry of Justice in December 2016 proposing a significant reduction to the cap on non-interest costs that may be charged on a customer loan agreement, the Committee received updates on the work being undertaken with various government ministries and relevant parties to encourage a solution that is good for both consumers and business. The Committee will continue to make this a focus throughout 2018. The Committee continued to monitor the project to implement IFRS 9, the new financial instruments accounting standard, which became effective from 1 January 2018, and received, reviewed and challenged reports from management on progress.

The Committee also continued to maintain its focus on the management of risks. The Committee is supported in its work by the Risk Advisory Group, which in 2017 comprised the Chief Executive Officer, Chief Financial Officer and Chief Legal Officer, together with other members of the senior leadership team. The Risk Advisory Group meets four times a year. It reports to the Audit and Risk Committee and considers the risk assessments and risk registers produced in each country, and updates the Group Schedule of Key Risks. It also considers areas of specific risk and particular issues.

The Committee has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function are appropriate for the business.

An annual internal audit plan for 2017 was developed using a risk-based approach. The Committee provides oversight and direction to the internal audit plan to ensure that it provides independent assurance over the integrity of internal controls and the operational governance framework. In addition, the external auditor communicates to the Committee any control deficiencies in the internal control environment it observes as part of its audit procedures. During the year, Deloitte did not highlight any material control weaknesses.

Internal audit

A firm basis for the opinion on the Group's system of internal control (see page 57) was provided throughout the year by the Head of Internal Audit via the execution of the annual internal audit plan. PwC and KPMG were engaged to support specific thematic audits where specialist technical knowledge was required.

The plan was split between basic assurance audits, covering core controls across the business as defined in the Group Schedule of Key Risks, and thematic audits providing a deeper review of the mitigation of the specific principal risks facing the Group. The Committee assessed the effectiveness of the internal audit function throughout the year. It considered and approved the annual internal audit plan on the basis that it addressed the principal risks and uncertainties facing the business. The Committee reviewed the reports produced and closely monitored management's progress in implementing the actions agreed. The Committee is satisfied that the internal audit function has a clear remit and a good linkage with the organisation.

Significant internal audits in 2017 were performed in the following areas:

Basic assurance

Branch-level reviews:

- Management of administration, operational, financial and loss prevention oversight processes in home credit branches in Mexico where the branch network continues to expand.

Head office audits:

- Implementation of IFRS 9
- Cyber-attack readiness
- Strategy execution
- General Data Protection Regulation readiness
- Core controls over:
 - People risk
 - Collections in the home credit markets
 - Change management

Thematic audits

• Regulation and compliance:

- Anticipating regulatory change
- Implementation of a Compliance Framework
- Compliance
 - with affordability legislation
 - with licensing regimes
 - with mis-selling legislation

• IT and Systems:

- Development of IPF Digital core IT system
- Single digital platform development
- IT strategy implementation
- IT key supplier roadmap
- MyCollections mobile app integrity

• Credit and collections:

- Credit and collections at IPF Digital
- Debt sales strategy execution

• Strategic:

- Mexico stabilisation
- Response to proposed changes to total cost of credit legislation in Poland

The Committee rigorously tracks the resolution of findings and recommendations raised in internal audit reports.

The internal audit function has also continued to monitor the effectiveness of the overall operational governance and oversight structure throughout 2017 and has made recommendations to ensure it properly reflects recent structural changes in the Group.

External auditor effectiveness and independence

The Committee considered the external auditor's assessment of the significant risks in the Group's Financial Statements set out in its audit plan and approved the scope of the external audit that addressed these risks. The Committee considered these risks and the associated work undertaken by the external auditor when forming its judgement on the Financial Statements.

The Committee monitored the effectiveness and conduct of the external auditor by reviewing:

- the experience and capabilities of the auditor and the calibre of the audit firm;
- the delivery of its audit work in accordance with the agreed plan; and
- the quality of its report and communications to the Committee.

In order to confirm its independence and objectivity, the external auditor issued a formal statement of independence to the Committee. In addition, the Committee ensured compliance with the Group's policy on the use of the external auditor for non-audit work. The key requirements of this policy are:

- the external auditor may not undertake certain prohibited services including internal audit, IT, remuneration, recruitment, valuation or general management consultancy; and
- the Committee Chairman must approve any individual non-audit service over a specific fee level.

The policy of the Committee in respect of non-audit services is that the external auditor is only appointed to perform a non-audit service when doing so would be consistent with both the requirements and overarching principles of the Financial Reporting Council's Revised Ethical Standard (2016), and when its skills and experience make it the most suitable supplier.

The Committee believes that the Group receives a particular benefit from certain non-audit services where a detailed knowledge of its operations are important or where the auditor has very specific skills and experience. However, other large accountancy practices are

also used to provide services where appropriate. During the year, the non-audit services carried out by Deloitte LLP were as follows.

Non-audit services carried out by Deloitte in 2017	Fee £'000
Taxation compliance services	9
Other assurance services	66
Total	75

During the year, the FRC's Audit Quality Review team selected to review the audit of the 2016 International Personal Finance plc Financial Statements as part of their 2017 annual inspection of audit firms. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. We welcome engagement with the FRC, and the Chairman of the Audit and Risk Committee received a full copy of the findings of the Audit Quality Review team and has discussed these with Deloitte. The Audit and Risk Committee confirms that there were three areas of potential improvement identified within the report. The Audit and Risk Committee is also satisfied that there is nothing within the report which might have a bearing on the audit appointment.

Audit tendering and auditor rotation

The Company's policy is to undertake a formal tendering exercise of the audit contract at least once every 10 years. Following a tender process, Deloitte LLP has been the Group's auditor since 2011. Peter Birch is the lead audit partner and has been since May 2017. The Company will be required to retender the audit for the financial year ended 2021 and plans to complete a competitive tender process by this time. In addition, the Committee will continue to consider the auditor's performance on an annual basis. Having undertaken its review for this year, in the opinion of the Audit and Risk Committee, the relationship with the auditor works well and the Committee remains satisfied with its independence, objectivity and effectiveness. Therefore, at its February 2018 meeting the Committee recommended to the Board that Deloitte LLP be reappointed as auditor at the 2018 Annual General Meeting.

During the year ended 31 December 2017, and up to the date of this report, the Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Training

The Committee undertook a significant amount of training during 2017. This included presentations on the following key business areas:

- Directors' obligations in relation to cyber security and response to data breach;
- General Data Protection Regulation central principles and primary requirements;
- the digital consumer lending market and our digital business;
- managing compliance risk;
- corporate governance including viability statement requirements;
- new tax strategy regulations; and
- IFRS 9, and how the Company will apply the new accounting standard and its impact on our Financial Statements.

This training was complemented by a visit to the Group's business in Poland, which included discussions with the management teams at Provident Polska and IPF Digital (see page 79 for more details).

Committee effectiveness

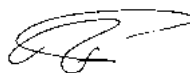
The Committee has also undertaken a review of its effectiveness using an internal questionnaire to its members, executive directors, management and external advisors. The results were collated by the Company Secretary and reviewed and discussed by the Board who concluded that the Committee continues to be effective.

Review of the effectiveness of the systems of internal control

On behalf of the Board, the Committee has monitored the Group's systems of internal control and its processes for managing principal risks throughout 2017 and performed an assessment of their effectiveness. In addition, the Committee, where appropriate, ensures that necessary actions have been or are being taken to remedy identified failings or weaknesses in the internal controls framework. These processes for identifying, evaluating and managing the principal risks faced by the Group were in place throughout 2017 and up to 1 March 2018.

Annual Report and Financial Statements

The Committee has reviewed and considered the Annual Report and Financial Statements, in line with other information the Committee has considered throughout the course of the year. It concluded, and recommended to the Board, that the Annual Report and Financial Statements 2017, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.



Richard Moat
Chairman

Dear shareholder,

In 2017, our revised strategic approach to IT gained momentum. The Committee met regularly throughout the year to oversee the implementation of the revised strategy and to monitor progress against each of its four key pillars. Particular emphasis was given to ensuring that appropriate governance structures were in place to deliver the overall change programme effectively so that it would maximise cost efficiencies and revenue generating opportunities.

Technology Committee composition (%)



● Independent non-executive directors

Committee members

John Mangelaars

Chairman and independent non-executive director
Member for 2 years and 5 months

Richard Moat

Independent non-executive director
Member for 3 years and 8 months

Cathryn Riley

Independent non-executive director
Member for 3 years and 8 months

 For more on our investment in technology see page 16



2017 objectives



- Launch new single digital platform into existing and new digital markets.
- Expand the delivery capabilities of the new Digital Centre of Excellence.
- Complete the full integration of technology staff from across businesses into the new centralised group.
- Roll out mobile applications to digitise processing within the home credit business.
- Implement a new data strategy into IPF Digital and our home credit businesses.

2017 progress



- Oversaw continued work on the first step in delivering a single digital platform; now in testing for launch into first market in H1 2018.
- IPF Digital and single digital platform teams physically co-located in Warsaw.
- IT centralisation for home credit completed in Mexico and Europe.
- Monitored build and roll-out of first two mobile apps for agents in Hungary and the Czech Republic with 4,000 agents now using this technology.
- New Chief Data Officer recruited.
- New reporting systems being implemented to support IFRS 9.

2018 objectives



- Complete roll out of single digital platform in first home credit market.
- Complete deployment of mobile apps in all European home credit markets.
- Deliver continued IT efficiency savings.
- Continue to build our data science capabilities.
- Provide robust systems and cyber security.

"Our revised strategic approach to information technology gained momentum in 2017."

John Mangelaars
Committee Chairman

Overview

Role

The Committee's terms of reference are available on our website and some of its key responsibilities include:

- supporting the technology programme and executive management by providing appropriate challenge, support, guidance and validation to ensure that the programme delivers quality outcomes at speed and within budget;
- briefing the Board on progress and making recommendations in relation to issues that need to be escalated to the Board for consideration and approval;
- providing assurance to the Board that benefits are being delivered, costs are being controlled and that delivery of the programme is supported effectively by appropriate, reliable plans and governance; and
- authorising commitments within financial limits delegated by the Board.

Composition

A quorum is three members. Full biographical details of members, including qualifications, can be found on pages 46 and 47.

Activities in 2017

Meetings

The Committee met four times during the year. Attendance at meetings can be found on page 49.

Implementing our revised strategic approach to IT

The IT strategy approved by the Board in 2016 had four pillars:

- creating a single digital platform;
- restructuring IT into a centrally managed function;
- digitising the home credit business; and
- using data as a strategic asset.

2017 saw substantial progress on all four of these pillars.

1. Creating a single digital platform

We continued developments to deliver a single stack of technology components to allow IPF to seamlessly offer digital lending products across all our Group businesses. This takes a best of breed approach combining the latest third party products with our proprietary product and loan engines built in house. We have progressively brought development in-house, grown our technical capabilities and are moving towards deployment in our first home credit market in the first half of 2018.

2. Restructuring IT into a centrally managed function

At the start of 2017, we moved from a federated structure of in-country IT teams in home credit to a centralised IT organisation in Europe of over 300 IT professionals managed by a highly experienced management team. This new structure has allowed us to drive economies of scale from our IT operations and reinvest these savings in our new digital and data programmes. Governance has been improved to allow us to take a Group-wide, strategic view of technology investment and resource allocation. At the start of 2018, Mexico was also incorporated into the Group IT function.

3. Digitising the home credit business

Good progress has been made rolling out our mobile handheld technology for agents, which has been designed to modernise and digitise much of the processing in our home credit business. We completed the roll-out of the first two apps, which focus on collections and team management in Hungary and the Czech Republic. The collections app securely provides our agents with a list

Case study: MyProvi – Rolling out our mobile technology applications

An important part of modernising and optimising our home credit business is the roll-out of our mobile handheld technology for agents, which is branded as MyProvi. This technology will support agent sales and collections, reduce administration costs and facilitate further efficiencies. It will also bring about improved compliance and data quality. It comprises four smartphone apps: MyCollections, to allow agents to collect customers' payments and record the transactions automatically on our internal system; MySales, to enable agents to credit score a customer; MyBalancing, which will allow agents to balance collections and sales and record this automatically on our internal system; and MyTeam, which will support field managers day-to-day work with agents and customers. In 2017, after establishing stability of the technology platform, we completed the roll-out of the MyCollections and MyTeam applications to more than 4,000 agents and field managers in Hungary and the Czech Republic. Our teams have also delivered training and communications to support our field teams. Progress made in 2017 is set out further in section 3 below.



Chris Robinson (CIO) and members of his team review the MyProvi apps.

of customers to visit and enables entry of the loan repayments, and the team management app enables our field managers to delegate groups of customers to other agents when the main agent is unavailable. The solution will be deployed to Poland in the first half of 2018.

4. Using data as a strategic asset

We launched our data strategy in 2017 with the aim of improving our ability to use data as a strategic asset. We focused on the development of new reporting systems to support reporting and analysis under IFRS 9, the new financial instruments accounting standard that became effective from the start of 2018. In addition we have appointed a Chief Data Officer who is creating an analytics centre of excellence to focus on areas where advanced data and analytics can add value to the organisation.

Key priorities

In 2018, we will focus on completing the roll-out of our single digital platform into our first market, completing the deployment of the initial agent mobile handheld technology apps in all our European home credit markets, leveraging further efficiencies from the centralisation of IT and delivering value from our analytics centre of excellence.


John Mangelaars
 Chairman

Dear shareholder,

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017 on behalf of the Board. The Remuneration Report is split into two sections:

- our Directors' Remuneration Policy ('2017 Policy'); and
- the Annual Remuneration Report, providing detail of amounts paid during the reporting year including incentive outcomes.

Following the successful shareholder vote on the 2017 Policy, our focus this year has been on the implementation of this Policy in the context of how the business has been performing and its long-term strategic objectives. Our remuneration principles going forward remain unchanged: simplicity and transparency; alignment with business strategy; and a strong relationship to business performance. No significant policy changes are expected in 2018.

2017 objectives

- Obtain formal shareholder approval of the 2017 Policy at the 2017 AGM.
- Implement the 2017 Policy.
- Continue to monitor evolving market and best practice.



Remuneration Committee composition (%)



Independent non-executive directors

Committee members

Cathryn Riley
Chair and independent non-executive director
Member for 4 years

Tony Hales
Senior independent non-executive director
Member for 10 years and 7 months

Jayne Almond
Independent non-executive director
Member for 2 years and 5 months

Richard Moat
Independent non-executive director
Member for 4 years and 10 months

2017 progress

- Formal shareholder approval of the 2017 Policy given at the 2017 AGM.
- 2017 Policy implemented in full.
- A vigilant approach to evolving market and best practice was maintained throughout 2017.



2018 objectives

Effective application of the 2017 Policy, including:

- set salary, bonus and share awards for executive directors in line with the 2017 policy;
- approve salary, bonus and share awards for senior management;
- ensure that executive director and senior management pay outcomes are sufficiently aligned with business performance; and
- continue to exercise vigilance on the changing remuneration regulatory landscape to ensure continued compliance.



"Our remuneration principles are simplicity and transparency, alignment with business strategy, and a strong relationship to business performance."

Cathryn Riley
Chair of the Remuneration Committee

Overview

Role

The Committee's terms of reference are available on our website and some of the key responsibilities include:

- approving the remuneration policy and its application for the executive directors, the Chairman and senior management, for recommendation to the Board;
- engaging with shareholders on matters related to remuneration; and
- determining appropriate performance targets and incentive outcomes.

Composition

The Committee comprises four independent non-executive directors and the quorum for decision-making is two members. Full biographical details of members can be found on pages 46 and 47.

Meetings

The Committee met four times during the year. Attendance at meetings can be found on page 49.

Business context – 2017 performance

We delivered a solid financial and operational performance in 2017 and profit before tax increased to £105.6 million against an external environment characterised by continued regulatory change and intense competition. The Committee has been robust in considering the improved performance of the business and in determining remuneration outcomes. The operational review and financial review for 2017 can be found on pages 24 to 30 and 31 to 35 respectively. These reports include some of the key financial metrics that we use to incentivise executive directors to deliver our strategy, including profit before tax, revenue less impairment and earnings per share ('EPS'). Headlines include:

- group profit before tax from continuing operations of £105.6 million, an increase of £9.6 million including a £11.3 million positive FX benefit (Bonus targets were adjusted to exclude this FX benefit);
- revenue less impairment of £624.7 million being higher than 2016 due to the larger receivables balance; and
- pre-exceptional tax EPS increased to 33.7 pence from 32.2 pence as a result of the increase in profit and partially offset by a higher effective tax rate.

Outcomes for 2017

In taking decisions on executive directors' remuneration the Committee has sought to ensure that the recommendations are appropriate from a 2017 Policy perspective and that they demonstrate clear alignment between the execution of our strategic priorities and our business performance over the financial year.

This is reflected in:

- a base pay award of 3% for our Chief Executive, the first award made since 2015, and one that aligns with the award given to the wider workforce in the UK;
- a base pay award of 7.7% for our Chief Financial Officer, in line with our intent (communicated in our 2016 Annual Remuneration Report) to achieve a level of base pay over time that is commensurate with the role (subject to performance);
- bonus awards of 96.6% of maximum (vs 16% in 2016). These awards reflect the strong performance delivered against our strategic priorities, and the alignment between these priorities and our bonus awards. The Group achieved profit before tax of

- £105.6 million against a target of £96.6 million (adjusted to exclude the positive FX impact), double digit growth in credit issued in Mexico of 12.9% (against a target of 10%) and IPF Digital of 43.6% (against a target of 40%). In addition the Executive Directors successfully executed a number of demanding individual objectives, details of which can be found on page 70. 50% of the bonus earned will be deferred into shares for three years;
- 2018 Performance Share Plan ('PSP' award) of 190% of salary, in line with policy; and
- legacy 2015 awards that have vested at 0% due to none of the LTIP measures having been met, see page 71.

Careful consideration was given by the Committee to ensuring that these recommendations were not only appropriate from a 'policy and performance' perspective, but also against a backdrop of evolving regulation and investor sentiment. This was particularly evident in the discussions around Chief Financial Officer base pay, and our intent to align base pay with a level commensurate with the role. In doing so we carefully considered and discussed performance in the role, alongside appropriate internal and external pay benchmarks.

More generally the Committee took into account the recovery in profitability demonstrated by the business over 2017 when compared with the regulatory challenges experienced in 2016, and the work undertaken by the senior management team in leading this recovery. To that end the Committee was pleased to approve bonus recommendations that reflected both our strong performance over the course of 2017, but also the ability of the annual bonus plan to recognise changes in year-on-year business performance appropriately. Alongside this the Committee has reviewed its own ways of working and terms of reference, to ensure that it continues to provide appropriate and proportionate oversight on pay, not only for executive directors, but also the wider IPF workforce.

Shareholder engagement

A full consultation was undertaken in 2016 in support of the introduction of the 2017 Policy. We have engaged shareholders in a manner which is consistent with the Committee's level of activity in a non-review year, but in line with our stated commitment to operate in an appropriately transparent fashion. To that end we set out the key decisions taken in a formal letter to major shareholders, and the supporting rationale behind those decisions.

How we ensure our pay is compliant

The Committee recognises the increasingly important role regulation has to play in executive remuneration and is committed to ensuring that our application of remuneration policy is compliant with both the letter and the spirit of prevailing regulation and legislation to the greatest extent possible. As a Committee we achieve this through:

- timely dialogue and consultation with our major shareholders on remuneration policy (in policy review years) and the application of this policy, as appropriate;
- effective use of the support provided to us by our independent remuneration advisors, Willis Towers Watson, in understanding the changing regulatory landscape and how this should inform both our remuneration policy and its application; and
- an ongoing commitment (as a Committee) to placing regulatory and best practice considerations at the heart of the decisions taken by the Committee on remuneration matters.

Directors' Remuneration Policy

Introduction

The Committee presents the first full application of the 2017 Policy which was approved by shareholders at the 2017 AGM in May 2017 and applies to awards granted from that date. We also committed to honour all appropriate pre-2017 Policy remuneration obligations.

In addition, where the terms of any remuneration payment (including any payments for loss of office) were agreed before the 2017 Policy came into effect, or at a time when the relevant individual was not a director of the Company, these remain eligible to be paid based on their original terms.

The intention of the Committee is that the 2017 Policy will remain in place for three years.

How pay is aligned to strategy

Our current executive director remuneration framework is intended to strike an appropriate balance between fixed and variable pay components and to provide a clear link between pay and our key strategic priorities. Executive director and senior management remuneration is structured so that individuals are only rewarded for the successful delivery of the key strategic priorities of the Company over the short and long-term.

2017 Policy table – executive directors

How the element supports our strategic objectives	Operation of the element	Maximum potential value	Performance metrics, weighting and time period
Base salary To attract and retain talent capable of delivering the Group's strategy. Rewards executive directors for their performance in the role.	Base salary is paid in 12 equal monthly instalments during the year. Salaries are normally reviewed annually and any changes are generally effective from 1 April. Salary levels are set taking into account role, experience, responsibility and performance, both of the individual and the Company, and also taking into account market conditions and the salaries for comparable roles in similar companies.	Normally, salary increases take into account salary reviews across the Group and are usually in line with increases awarded to UK employees. By exception, higher awards may be made at the Committee's discretion to reflect individual circumstances. For example: <ul style="list-style-type: none"> • changes to role which increase scope and/or responsibility; • development and performance in the role; and • responding to competitive market pressures. There is no prescribed maximum increase as per the 2017 Policy.	None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries annually.
Pension To provide retirement funding.	The Company operates a stakeholder scheme; at the discretion of the Committee, this may be paid as a cash allowance. The Company has closed its defined benefit scheme to new members and future accrual.	Company contribution is 15% of base salary.	None.

How the element supports our strategic objectives	Operation of the element	Maximum potential value	Performance metrics, weighting and time period
Benefits To provide market-competitive benefits that support the executive directors to undertake their role.	The Company pays the cost of providing the benefits on a monthly, annual or one-off basis. All benefits are non-pensionable.	The standard benefits package includes: <ul style="list-style-type: none"> • life assurance of 4x salary; • car allowance; • long-term disability cover; • private medical cover for executive director and immediate family; • annual medical; and • ability to participate in The IPF Save As You Earn Plan ('SAYE') and any other all-employee share schemes on the same terms as other employees. Additional benefits may also be provided in certain circumstances, which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Committee.	None.
Annual bonus To motivate and reward sustainable Group profit before tax and the achievement of specific personal objectives linked to the Company's strategy.	<p>Measures and targets are set annually and pay-out levels are determined by the Committee after the year end, based on performance against those targets.</p> <p>The Committee may, in exceptional circumstances, amend the bonus pay-out should this not, in the view of the Committee, reflect overall business performance or individual contribution.</p> <p>50% of the total bonus amount is deferred for three years in Company shares through the Deferred Share Plan ('DSP'). The remaining 50% is paid in cash. Payments are made around three months after the end of the financial year to which they relate.</p> <p>There are provisions for clawback adjustments on the occurrence of certain events (see page 66 for details).</p>	<p>On-target opportunity: 65% of base salary.</p> <p>Maximum opportunity: 100% of base salary.</p>	<p>Performance is measured over the financial year.</p> <p>Performance is assessed using the following criteria:</p> <ul style="list-style-type: none"> • typically 80% is based on achievement of financial and strategic measures; and • typically 20% is based on achievement of personal objectives linked to achievement of Company strategy. <p>Although each of the annual bonus metrics could pay out independently, the Committee will set a minimum threshold profit target before any other metrics are assessed.</p>

2017 Policy table – executive directors continued

How the element supports our strategic objectives	Operation of the element	Maximum potential value	Performance metrics, weighting and time period
Deferred Share Plan (DSP)			
To strengthen the link between short and longer-term incentives and the creation of sustainable long-term value.	<p>50% of the total bonus amount is subject to compulsory deferral for three years in Company shares without any matching. The matching element will no longer be operated going forward.</p> <p>Following the vesting of awards, executive directors receive an amount (in cash or shares) in respect of the dividends paid or payable between the date of grant and the vesting of the award on the number of shares that have vested.</p> <p>The DSP has provision for malus and clawback adjustments on the occurrence of certain events (see page 66 for details).</p> <p>Awards may also be adjusted in the event of a variation of capital, in accordance with the plan rules.</p>	50% of the total bonus amount received during the year.	None.
Performance Share Plan (PSP)			
To motivate and reward longer-term performance, and support shareholder alignment through incentivising absolute shareholder value creation.	<p>Annual grant of awards, generally made as nil-cost options over a specific number of shares subject to meeting specified performance targets.</p> <p>The Committee has discretion to decide whether and to what extent targets have been met, and if an event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them so long as the adjustment does not make them materially less difficult to satisfy.</p> <p>Awards may also be adjusted in the event of a variation of capital, in accordance with the plan rules.</p> <p>Executive directors will be required to hold any shares acquired on vesting (net of any shares that may need to be sold to cover taxes) for a two-year period starting on the date of vesting.</p> <p>The PSP has provisions for malus and clawback adjustments on the occurrence of certain events (see page 66 for details).</p>	<p>In normal circumstances, annual award levels for executive directors shall be equivalent to 190% of base salary at the time of grant.</p> <p>The rules of the PSP plan permit annual grants up to an individual limit of 250%. Although the Committee shall retain discretion to make awards up to this level, it would expect to consult with significant shareholders, if awards were routinely made above normal levels and would, in all cases, make a comprehensive retrospective disclosure outlining the Committee's rationale in the Annual Remuneration Report.</p> <p>Vesting of PSP awards is dependent on service and performance conditions.</p> <p>25% of the award vests at threshold performance in respect of the performance conditions, with straight-line vesting to maximum.</p>	<p>Service and performance conditions must be met over three-year periods.</p> <p>Performance is assessed against three independently measured metrics that are weighted as follows:</p> <ul style="list-style-type: none"> • 1/2 absolute TSR performance; • 1/4 cumulative EPS growth; and • 1/4 growth in revenue less impairment. <p>The Committee will compare the Company's absolute TSR performance to comparator groups considered appropriate at the point of vesting.</p> <p>The targets are set by the Committee, and targets will be set out in the Annual Remuneration Report of the relevant year.</p> <p>A six-month averaging period is used for calculating TSR.</p>

How the element supports our strategic objectives	Operation of the element	Maximum potential value	Performance metrics, weighting and time period
Shareholding requirement To support alignment with shareholder interests.	<p>Executive directors are expected to acquire a beneficial shareholding over time.</p> <p>Shares which have vested unconditionally under the Company's share schemes will be taken into account with effect from the date of vesting (but not before).</p> <p>50% of all share awards vesting under any of the Company's share incentive schemes (net of exercise costs, income tax and social security contributions) must be retained until the shareholding requirement is met.</p>	The current shareholding requirement for executive directors is 200% of base salary.	None.

Non-executive directors

The Board reviews non-executive directors' fees periodically in the light of fees payable in comparable companies and the importance attached to the retention and attraction of high-calibre individuals as non-executive directors. Non-executive directors receive no other benefits and take no part in any discussion or decision concerning their own fees. The Committee reviews the Chairman's fees. Fees were increased last on 1 October 2013 for the of the Chairman and 1 January 2014 for the non-executive directors. No increases to fees are proposed for the Chairman or non-executive directors in 2018.

2017 Policy table – non-executive directors

Element	Purpose	Operation
Fees	To attract and retain a high-calibre Chairman and non-executive directors by offering market competitive fees.	<p>Fees are paid on a per annum basis and are not varied for the number of days worked.</p> <p>The level of the Chairman's fee is reviewed periodically by the Committee (in the absence of the Chairman) and the executive directors.</p> <p>The Chairman and executive directors review non-executive directors' fees periodically in the light of fees payable in comparable companies or to reflect changes in scope of role and/or responsibility.</p> <p>As approved at the 2014 AGM, the maximum annual aggregate fee level for all non-executive directors allowed by the Company's Articles of Association is £650,000.</p> <p>The senior independent non-executive director and Chairs of the Board Committees are paid an additional fee to reflect their extra responsibilities.</p> <p>Any non-executive director who performs services which, in the opinion of the Board, go beyond the ordinary duties of a director may be paid such additional remuneration as the Board may authorise.</p> <p>Fees are paid on a quarterly basis.</p>
Shareholding requirement	To support shareholder alignment by encouraging our non-executive directors to align with shareholder interests.	Non-executive directors are expected to acquire a beneficial shareholding equivalent to 100% of their director's fee within three years of appointment.

Notes to the 2017 Policy table

Performance measures and targets

The Committee selects annual bonus performance conditions that are central to the achievement of the Company's key strategic priorities for the year and reflect both financial and non-financial objectives. To balance this, the performance conditions for the PSP are linked to long-term value creation: TSR aligns with our focus on shareholder value creation; EPS provides a measure of profitability and supports our long-term strategy; and revenue less impairment supports our focus on sustainable growth. The performance targets are determined annually by the Committee and are set typically at a level that is stretching and achievable, taking into account our strategic priorities and the economic environment in which we operate. Targets are normally set with reference to a range of data points, including the budget, sell-side analyst forecasts, historical performance, environment, social and governance ('ESG') risks and incentive performance ranges at the Company's comparators, where disclosed.

The Board is of the opinion that the performance measures and targets for the annual bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them during the financial year. This is particularly so because the majority of our competitors are unlisted. However, the Committee commits to making a comprehensive retrospective disclosure in respect of performance against the targets set where the disclosure of that information is no longer deemed commercially sensitive.

Malus and clawback

The circumstances when malus and clawback may apply include (but are not limited to) where:

- the financial statements of the Company or of any member of the Group are required to be restated due to discovery of a misstatement in the relevant financial statements resulting in shares vesting to a greater degree than would have been the case if that misstatement had not been made; or
- the discovery that an assessment of performance connected to the award (including relating to the original bonus amount for the DSP) was based on misleading or inaccurate information; or
- there has been fraud or gross misconduct, or circumstance which, in the opinion of the Committee, would entitle the Company or any other member of the Group to summarily dismiss the individual; or
- the Committee decides circumstances exist which justify the operation of malus or clawback.

The clawback period for the PSP normally runs for two years from the date of vesting and from the date of payment in the case of the cash portion of annual bonus awards. For deferred awards under the DSP, malus will apply for the duration of the deferral period.

Discretions

The Committee will operate the annual bonus plan, PSP and DSP according to their respective rules and in accordance with the Listing Rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards relating to the operation and administration of these plans. These include, but are not limited to, the following in relation to the PSP and DSP:

- the participants;
- the timing of grant of an award;
- the size of an award;
- the determination of vesting;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures and weighting, and targets for the PSP from year to year.

In relation to the annual bonus plan, the Committee retains discretion over:

- the participants;
- the timing of grant of an award/payment;
- the determination of the bonus payment;
- dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen; and
- the annual review of performance measures and weighting, and targets for the annual bonus plan from year to year.

In relation to both the Company's PSP and annual bonus plan, the Committee retains the ability to adjust the performance targets if events occur which cause it to determine that the targets are no longer appropriate (e.g. material acquisition and/or divestment of a Group business), so long as the amendment will not make the target materially less difficult to satisfy. Any use of this discretion would be explained in the Directors' Remuneration Report and may be the subject of consultation with the Company's major shareholders.

The use of discretion in relation to the Company's SAYE will be in line with the governing UK Legislation, HMRC rules and the Listing Rules.

Illustrations of total remuneration opportunity

We have set out an illustration of the 2017 Policy as outlined in the table on pages 62 to 65.

The charts on page 67 provide an illustration of the proportion of total remuneration made up by each component of the 2017 Policy, together with the value of each. Benefits are calculated as per the single figure of remuneration and three scenarios have been illustrated: 'Fixed', 'On-target' and 'Maximum'.

The charts are indicative, as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows:

- Fixed: fixed remuneration only (i.e. latest known salary, benefits and pension).
- On-target: fixed remuneration plus on-target annual bonus (65%) plus threshold (25%) PSP shares.
- Maximum: fixed remuneration plus full pay-out of all incentives (i.e. 100% of salary in annual bonus, 190% of salary in PSP).



Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. Starting salary will be set in accordance with the approved remuneration policy, based on a combination of market information, internal relativities and individual experience. Thereafter, salary progression will depend on the initial agreed base salary and the normal review process.

The maximum level and structure of ongoing variable remuneration will be in accordance with the approved remuneration policy, i.e. at an aggregate maximum of up to 100% in respect of annual bonus and, if necessary, 250% in respect of the PSP and/or cash awards at equivalent value. For the avoidance of doubt, these limits shall not apply to any replacement awards which the Committee may determine it necessary to make in order to secure the services of a preferred candidate.

For external appointments, it may be necessary to buyout an individual's awards from a previous employer. The Committee will seek to minimise the need for such arrangements and will aim to recruit executive directors subject to the policy maximum defined above. However, to be able to attract the required calibre of talent, we may offer additional cash and/or share-based elements when we consider these to be in the best interests of the Company.

In doing so, the Committee would ensure that any such payments have a fair value no higher than that of the awards forgone including payments for any benefits in kind, pension and other similar allowances, and reflect the delivery mechanism (i.e. cash, shares and/or options), time horizons and expected value (i.e. likelihood of meeting any existing performance criteria). Replacement share awards, if used, will be granted using existing share plans. Wherever possible, any new arrangements will be tied into the achievement of Group targets in either the annual performance bonus or long-term incentives, or both. Full details will be disclosed in the next Directors' Remuneration Report following the date of recruitment, which will provide explanations in relation to the amount and delivery structure of the awards made for the purposes of recruitment.

As shares under the PSP will not normally be released for up to three years with a further two-year holding period for executive directors, some cash-based interim long-term arrangement may be provided, but the level will not be more than would otherwise have been paid.

For internal appointments, any variable pay elements awarded in respect of the prior role may be allowed to pay out according to the terms of the scheme, adjusted as relevant to take account of the new appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

As noted in the 2017 Policy table on pages 62, any new executive director will be subject to a new maximum annual pension contribution from the Company of 15% of base salary.

For both internal and external appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

Directors' service agreements and letters of appointment

In 2014, the Committee adopted a policy in relation to service agreements for newly appointed executive directors of six months' notice. Gerard Ryan remains an exception to this, having been appointed on a 12-month rolling contract prior to this change in policy. Justin Lockwood has been appointed on a 6-month rolling contract.

All non-executive directors are appointed for three years, subject to re-election by shareholders. The initial three-year period may be extended. The Company can terminate the appointment on three months' notice.

Our Articles of Association require that all directors retire from office if they have not retired at either of the preceding two AGMs. In any event, at the 2018 AGM, all directors will be standing for re-election in compliance with the UK Corporate Governance Code. Service agreements are available for inspection at the Company's registered office. Service agreements and letters of appointment are not reissued when base salaries or fees are changed.

The date of service agreements of directors who served during the year and their letters of appointment are:

Executive director	Date of service agreement
Gerard Ryan	January 2012
Justin Lockwood	February 2017
Non-executive director	Date of appointment
Dan O'Connor	January 2015
Tony Hales	July 2007
Jayne Almond	June 2015
John Mangelaars	July 2015
Richard Moat	July 2012
Cathryn Riley	February 2014

Loss of office payments

Our policy is to limit severance payments on termination to pre-established contractual arrangements. In the event that the employment of an executive director is terminated, any compensation payable will be determined having regard to the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. Except in circumstances of gross misconduct or voluntary termination, the Company retains discretion to make ex-gratia payments where considered reasonable and fair in the Committee's opinion, and to cover costs solely relating to termination of employment by the Company. Example costs may include legal, tax and outplacement services subject to such fees being de minimis in nature and in the best interests of the Company.

Under normal circumstances, good leavers who do not serve notice are eligible to receive termination payments in lieu of notice based on base salary and contractual benefits.

Normally, we expect executive directors to mitigate their loss upon departure. In any specific case that may arise, the Committee will consider carefully any compensatory payments, having regard to performance, service, health or other circumstances that may be relevant.

In the event an executive director leaves for reasons of injury, disability, change of control of the Company, or any other reason which the Committee in its absolute discretion permits (including death in service), any unvested PSP awards will normally vest at the normal time following the end of the performance period and be pro-rated for time. Performance conditions would apply. However, awards will vest early on death and the Committee has the discretion to allow the award to vest early on cessation of employment. In this event, the Committee will determine whether the performance conditions are, or will be, met over such period as the Committee determines appropriate, although the award will normally be reduced on a pro-rata basis. PSP awards that have vested at the time of leaving will be retained and exercisable for a limited period following leaving. The Committee may determine that the holding period will no longer apply if the director leaves for one of the reasons specified above. When determining the treatment of outstanding awards for exiting directors, the Committee will take into account the executive director's level of performance and any contribution to a transition.

For all other leavers, outstanding PSP awards will lapse.

Differences in remuneration policy for all employees

All employees are entitled to base salary and benefits appropriate to the market in which they are employed. The maximum opportunity available is based on the seniority and responsibility of the role.

PSP awards are only currently available to senior management and directors.

Consideration of employment conditions elsewhere in the Company

In making remuneration decisions, the Committee also considers the general increases in base salaries taking place within the Group. While the Company does not consult directly with employees as part of the process of reviewing executive director pay, the Committee does receive and take account of employee engagement results as part of the overall assessment of executive director performance.

Policy on executive directors holding external appointments

With the consent of the Board, executive directors may hold one non-executive directorship in an individual capacity and will retain any fees earned.

Annual Remuneration Report

The Remuneration Committee reviews the senior management remuneration framework annually and considers whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, current external guidelines and a range of internal factors including the 2017 Policy and pay arrangements throughout the rest of the Group. The table below shows the performance measures used in current incentive schemes and how these align with the key performance indicators detailed on pages 18 to 19.

Single figure of total remuneration (audited information)

The following table sets out the single figure of total remuneration for directors for the financial years ended 31 December 2016 and 2017.

	Salary/fees £'000		Benefits £'000		Bonus ¹ £'000		LTIP £'000		Pension £'000		Total £'000	
	2017	2016	2017	2016	2017	2016	2017 ²	2016 ³	2017	2016	2017	2016
Executive directors												
Gerard Ryan	505	505	26	25	488	81	22	138	89	89	1,130	838
Justin Lockwood ⁴	221	–	18	–	251	–	5	–	31	–	526	–
Non-executive directors												
Dan O'Connor	200	200	–	–	–	–	–	–	–	–	200	200
Tony Hales ⁵	75	75	–	–	–	–	–	–	–	–	75	75
Jayne Almond	55	55	–	–	–	–	–	–	–	–	55	55
John Mangelaars ⁶	65	65	–	–	–	–	–	–	–	–	65	65
Richard Moat ⁷	70	70	–	–	–	–	–	–	–	–	70	70
Cathryn Riley ⁸	65	65	–	–	–	–	–	–	–	–	65	65

1. Bonus payable in respect of the financial year including any deferred element at face value at date of award. Further information about how the level of 2017 award was determined is provided in the additional disclosures section below.
2. The value of awards included in the table for 2017 relates to the DSP matching award, granted in 2015, the performance period for which was the three financial years ended 31 December 2017. This value also includes the anticipated value of dividend equivalents that will be payable in 2018. The awards have been valued according to an estimate based on expected vesting and the 1-month average share price to 31 January 2018. These estimated figures will be updated and based on the actual values of the awards for the relevant dates in next year's report. Further information about the level of vesting is provided in the additional disclosures section below.
3. The value of awards included in the table for 2016 has been revised to reflect the actual value of awards vesting (an estimate of the value of these awards based on the three-month average share price to 31 December 2016 was used in the 2016 Annual Remuneration Report) and any dividend equivalents received in 2017 when the awards became exercisable.
4. Justin Lockwood was appointed to the Board on 23 February 2017.
5. Tony Hales is Senior independent non-executive director. In addition to his base fee of £55,000, he was paid a fee of £20,000 per annum for this additional responsibility.
6. John Mangelaars chaired the Technology Committee during 2017. In addition to his base fee of £55,000, he was paid a fee of £10,000 per annum for this additional responsibility.
7. Richard Moat chaired the Audit and Risk Committee during 2017. In addition to his base fee of £55,000, he was paid a fee of £15,000 per annum for this additional responsibility.
8. Cathryn Riley chaired the Remuneration Committee during 2017. In addition to her base fee of £55,000, she was paid a fee of £10,000 per annum for this additional responsibility.

Additional disclosures for single figure of total remuneration table

Base salary

The base salary for the Chief Executive Officer will be increased by 3% from April 2018, in line with the wider IPF UK base salary award. This award reflects the continued strong contribution of the Chief Executive Officer to the performance of the business, coupled with the need to ensure (following three years without any adjustment) that appropriate periodic adjustments are made to base salary in line with inflation and other relevant factors. The base salary for the Chief Financial Officer will be increased by 7.7% from April 2018, reflecting the need (as highlighted in the 2016 Annual Remuneration Report) to review the CFO's salary in the coming years, and consider increases beyond those typically granted to the wider workforce to achieve the desired salary level commensurate with the role, subject to performance.

Benefits

The benefits provided to the executive directors in 2017 included: private healthcare, life assurance, annual medical, long-term disability cover and a cash allowance in lieu of a company car. Neither of the executive directors received total taxable benefits exceeding 8% of salary in 2017, and it is not anticipated that the cost of benefits provided will exceed this level materially during the period in which the 2017 Policy shall apply.

Determination of 2017 annual bonus

The maximum opportunity for both the Chief Executive Officer and Chief Financial Officer was 100% of salary (65% for on-target performance with no payout for below target performance). During 2017, a balanced scorecard approach was used to ascertain the annual bonus where 60% of total bonus opportunity in 2017 was subject to achieving against the profit before tax target, with a further 10% contingent on achieving against the credit issued growth target in Mexico, and a further 10% contingent on achieving against the IPF Digital credit issued growth target. The remaining 20% of the

Directors' Remuneration report continued

scheme outcome (from a maximum of 100% of base salary) is subject to the achievement of personal objectives and is conditional upon the achievement of these financial measures. The bonus outcome in respect of personal performance is determined by a performance rating assigned by the Committee having taken into account the stretch associated with the objectives set and performance against them. Each rating acts as a multiplier against the 20% of the scheme subject to personal performance as follows:

Performance rating	Effective	Extremely effective	Outstanding
% multiplier	65	82.5	100
% of scheme outcome (20%)	13	16.5	20

Group bonus targets

Group bonus targets were set taking into account the Company's operating budget and external forecasts for the sector. Targets were designed to be stretching in order to drive desired behaviours and increase motivation and focus. The Group bonus targets for 2017 were as follows:

	Threshold	Target	Maximum	Achievement	Bonus payout
Group profit before tax	£90.8M	£96.6M	£102.3M	£105.6M	60.0%
Mexico credit issued growth	–	10.0%	14.0%	12.9%	9.0%
IPF Digital credit issued growth	–	40.0%	52.0%	43.6%	7.6%

Bonus targets were adjusted to exclude FX benefit.

Performance against the Group profit before tax targets (adjusted to exclude the positive FX impact) reflected the strong performance in 2017. Mexico credit issued grew by 12.9% despite the impact of two earthquakes that hit Mexico in September. The Committee considered the impact of these events on the targets set but decided not to make any adjustment to the targets or exercise discretion in respect of performance outcomes. Growth in IPF Digital credit issued of 43.6% reflects the continued momentum of this business, and the key growth opportunity it offers the Group. 50% of the bonus earned will be deferred into shares for three years.

Personal objectives

The table below shows the objectives that were set for the Chief Executive Officer in 2017 and achievement against them.

Gerard Ryan – Chief Executive Officer

Category	Objectives	Results
People	Resource and build a high-performance senior management team with capabilities linked to delivering our Group strategy.	Key appointments to our leadership team in Finance, Legal and HR made an immediate impact, bringing to bear their expertise, fresh thinking, renewed strategic focus and drive across the Group.
Organisation	Re-design and implement a new organisation structure to optimise delivery of our Group strategy.	Our new simplified structure sees key individuals playing to their strengths in a structure that clarifies individuals' responsibilities and accountability for results across the Group.
Balance sheet strength and capital management	Introduce a more effective capital management strategy.	In a challenging regulatory and commercial environment the Group maintained adequate headroom on undrawn bank facilities, alongside continued successful access to bond markets.
Mergers and acquisitions	Successfully exit Slovakia.	Exit from Slovakia managed successfully with a better-than-expected profit outcome, and effective mitigation of regulatory and reputational risk.
Risk management	Manage regulation and taxation risks with particular focus on Poland.	Strengthened our approach to governing regulatory risk through an effective stakeholder relationship programme.
Technology	Invest in technology to enable both the development of our digital business and Group-wide productivity.	Single digital platform will enable the business to offer digital lending products across all Group businesses. Roll-out of agent mobile technology underway.

The table below shows the objectives that were set for the Chief Financial Officer in 2017 and achievement against them.

Justin Lockwood – Chief Financial Officer

Category	Objectives	Results
Capital and funding	Maintain the Group's capital position in the short to medium term, and develop a longer-term funding strategy.	New or extended bank funding lines are in place, and bond markets have been accessed successfully.
Resource allocation and driving returns	Embed Returns on Assets ('ROA') and internal rates of return ('IRR') as key performance measures, and deploy processes to place these measures at the heart of our decision making around the deployment of resources.	'Managing for returns' strategy introduced across the business with ROA and IRR being used in capital allocation and decision making.
Strategy delivery	Manage the European home credit businesses for returns, return Mexico to profitable growth and deliver on potential for IPF Digital.	'Managing for returns' embedded in the European home credit businesses. Mexico delivered a strong improvement in operational performance albeit one that was impacted by two earthquakes. IPF Digital made good progress against strategic objectives.
Regulatory and taxation	Effective implementation of IFRS 9, and effective management of significant tax exposures in Poland.	The implementation of IFRS 9 and the Group's significant tax exposures were managed effectively.
People	Continue to strengthen and develop the finance leadership team.	Further strengthened the finance leadership team with the recruitment of a number of senior hires and internal promotions across the Group.

Having reviewed the executive directors' performance against their personal objectives and in the context of the challenges faced by the business in 2017, the Committee determined that the Executive Directors met their personal objectives. Consequently the bonus pay-out in respect of personal objectives is 20% calculated as follows:

- Maximum available (20%)
- Application of outstanding rating multiplier (100%)
- Bonus pay-out for personal objectives = 20% (20% x 100%)

Bonus outcome for 2017

The Committee awarded bonuses to the executive directors of the amounts shown below for the year ended 31 December 2017.

	Financial objectives – achievement as a percentage of base salary	Personal objectives – achievement as a percentage of base salary	Cash bonus £'000	DSP – face value of shares due to vest in 2021 £'000	Total value of 2017 annual bonus £'000	Cash and DSP shares award as a percentage of maximum bonus available
Gerard Ryan	76.6%	20.0%	244.0	244.0	488.0	96.6%
Justin Lockwood	76.6%	20.0%	125.5	125.5	251.0	96.6%

The bonus is payable as 50% in cash, and 50% in deferred shares, which will vest at the end of a three-year period, subject to the executive director not being dismissed for misconduct. There are also provisions for clawback, with respect to the cash element of the bonus and malus with respect to the deferred elements of the bonus, as detailed on page 66.

Pension

The Company has two pension schemes, the International Personal Finance plc Pension Scheme ('the Pension Scheme') and the International Personal Finance Stakeholder Pension Scheme ('the Stakeholder Scheme'). New employees are eligible to join the Stakeholder Scheme. The rate of Company pension contribution for the Chief Executive Officer is 20% of base salary and for the Chief Financial Officer is 15% of base salary.

At the discretion of the Committee, this may be paid wholly or, in part, as a cash allowance.

The Company's contributions in respect of Gerard Ryan during 2017 amounted to £88,752, all of which was paid as a cash allowance.

The Company's contributions in respect of Justin Lockwood during 2017 amounted to £31,087, £12,914 of which was paid as a cash allowance.

Long-term incentives

Awards estimated to vest during 2018 (included in 2017 single figure)

The LTIP amount included in the 2017 single figure relates to the DSP matching shares and PSP awards granted in 2015. The performance achieved against the performance targets is shown below:

DSP matching shares

Performance condition	Weighting	Threshold	Maximum	Achieved	Projected vesting
Absolute TSR growth ¹	1/3	30% TSR over 3 years	60% TSR over 3 years	0%	0%
Cumulative EPS growth	1/3	6% p.a.	15% p.a.	0%	0%
Growth in revenue less impairment	1/3	5% p.a.	10% p.a.	0%	0%
Total				0%	0%

1. Based on TSR from 1 January 2015 to 31 December 2017.

PSP

Performance condition	Weighting	Threshold	Maximum	Achieved	Projected vesting
Absolute TSR growth ¹	1/3	30% TSR over 3 years	60% TSR over 3 years	0%	0%
Cumulative EPS growth	1/3	6% p.a.	15% p.a.	0%	0%
Growth in revenue less impairment	1/3	5% p.a.	10% p.a.	0%	0%
Total				0%	0%

1. Based on TSR from 1 January 2015 to 31 December 2017.

As disclosed in the 2017 Policy, executive directors are expected to acquire a beneficial shareholding over time equivalent to a minimum of 200% of salary. 50% of all share awards vesting under any of the Company's equity incentive schemes (net of exercise costs, income tax and social security contributions) must be retained until the requirement is met. Executive directors' current holdings against the guideline are disclosed on page 74.

Directors' Remuneration report continued

Awards granted during 2017

Awards were made in the financial year ending 31 December 2017 under the LTIP (PSP), DSP and the SAYE.

LTIP

In line with the 2014 Policy, executive directors were granted LTIP awards structured as PSP options in April 2017. The resulting number of LTIP shares and associated performance conditions are set out below. Awards granted in 2018 will be in line with the 2017 Policy as set out on page 64.

	Number of PSP nil-cost options ¹	Face value ² £	Percentage of base salary	End of performance period	Threshold vesting	Weighting	Performance conditions
Gerard Ryan	370,408	631,250	125%	31 December 2019	25%	1/3	Absolute TSR
					25%	1/3	Cumulative EPS growth
					25%	1/3	Growth in revenue less impairment
Justin Lockwood	190,705	325,000	125%	31 December 2019	25%	1/3	Absolute TSR
					25%	1/3	Cumulative EPS growth
					25%	1/3	Growth in revenue less impairment

1. The awards are nil-cost options to acquire shares for £nil consideration.

2. The awards are options to acquire shares for their market value calculated using the average share price for the three days before the day of grant, being 170 pence per share.

Performance conditions

Awards granted during 2017 will vest as follows, with straight-line vesting between the points:

	Absolute TSR	Cumulative EPS growth	Growth in revenue less impairment
Weighting	1/3	1/3	1/3
Vested at threshold	25%	25%	25%
Threshold	30% over 3 years	86.6 pence	6.0% p.a.
Stretch (100% vesting)	60% over 3 years	101.0 pence	8.1% p.a.

DSP

In 2017, two-thirds of the annual bonus earned in respect of 2016 was deferred in shares and attracted performance-based matching shares on a one-for-one or a one-for-three basis. There are no further performance conditions attached to the vesting of the deferred shares.

The matching awards will vest only to the extent that the performance conditions are satisfied, being the same three measures as set out in the LTIP section above. The following table sets out details of awards of nil-cost options made during the year under the DSP:

	Date of award	Face value ¹ £	Amount vesting Threshold performance (% of face value)	Maximum performance (% of face value)	End of performance period
Gerard Ryan	11 April 2017	Deferred: 53,867 Matching: 53,867	25%	100%	31 December 2019

1. The face value was calculated using the average share price for the three days before the day of grant, being 170 pence per share.

SAYE

As noted in the 2017 Policy, UK-based executive directors are entitled to participate in the Company's tax advantaged all-employee scheme. During the year, both Gerard Ryan and Justin Lockwood were granted options (see pages 75 and 76 for details).

Loss of office payments (audited information)

No individuals resigned as directors of the Company during 2017.

Payments to past directors (audited information)

No payments were made to past directors during performance year 2017. David Broadbent will receive (on a time pro-rated basis) any shares due to him under the 2015 DSP and PSP schemes, in line with the terms of his redundancy, detailed in the Annual Report and Financial Statements 2016.

Percentage change in Chief Executive Officer's remuneration

The table (below) shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2016 and 2017 compared with the % change in aggregate pay in each of those components for a selected group of employees. The Country Management Team ('CMT') is the selected comparator group (currently 11 individuals with complete 2016 and 2017 service as CMT members, and 13 individuals in total), due to the structure of their remuneration package, and the ability to make a meaningful comparison between the pay of the Chief Executive Officer and the comparator group.

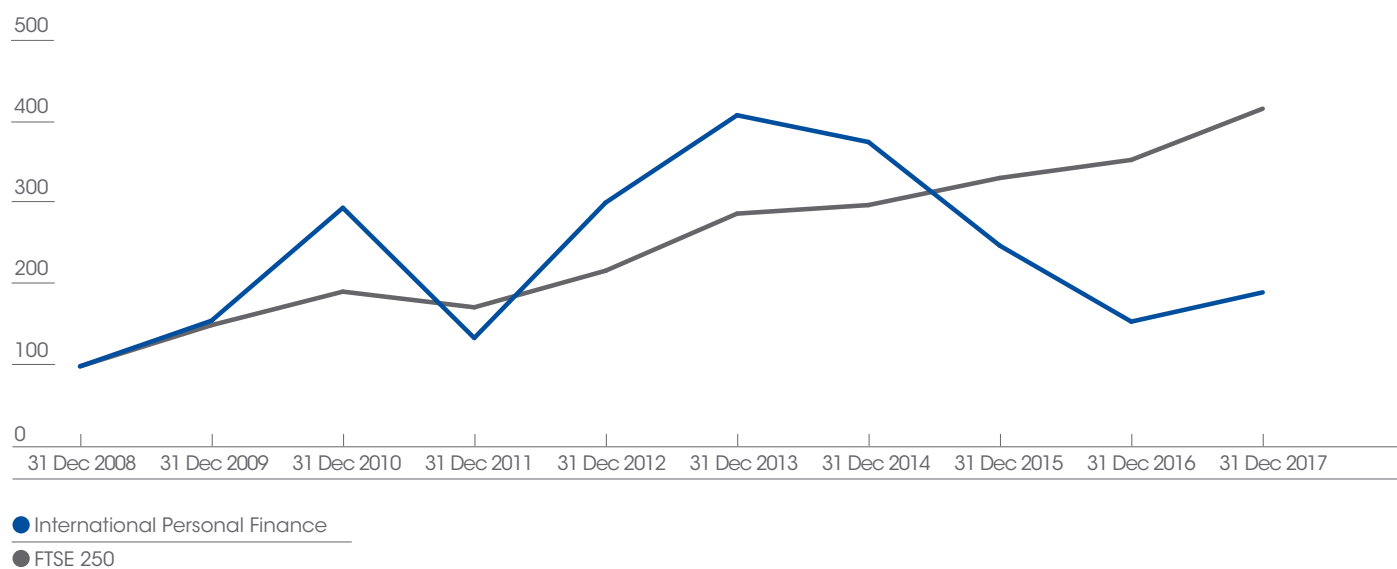
		CEO	CMT
	To 31 December 2017 £'000	Percentage change (2017 vs 2016)	Percentage change (2017 vs 2016)
Salary ¹	505	–%	13.1%
Benefits	26	4.0%	8.9%
Bonus ^{2,3}	488	502.5%	75.5%

1. % change in CMT salary levels reflects in part the increase awarded to the Group Head of Finance on his promotion to the role of Chief Financial Officer in February 2017.
2. % change in CEO's bonus outcome reflects pay-out at 16% of maximum in respect of performance year 2016, and 96.6% of target in respect of 2017, with the change in bonus outcome reflecting the upturn in Company performance, following the regulatory and external challenges faced by the business in 2016.
3. % change in CMT bonus (75% increase in 2017 pay-out Vs 2016) driven (as with the CEO) by the upturn in Company performance, following the regulatory and external challenges faced by the business in 2016.

TSR performance

The graph below compares the TSR of the Company with the companies comprising the FTSE 250 Index for the nine-year period ended 31 December 2017. This index was chosen for comparison because the Company has been a member of this index for the majority of the time since its shares were listed on 16 July 2007.

IPF TSR vs FTSE 250



TSR is sourced from Thomson Reuters Datastream. Data represents spot figures at the end of each year and has been rebased on 31 December 2008.

The table below shows the corresponding Chief Executive Officer remuneration, as well as the annual variable element award rates and long-term vesting rates against maximum over the same period:

		CEO single figure of remuneration £'000	Annual bonus pay-out (as % maximum opportunity)	LTIP vesting (as % of maximum opportunity)
2017	Gerard Ryan	1,130	96.6%	0%
2016	Gerard Ryan	838	16%	23.3%
2015	Gerard Ryan	1,197	45%	58.8%
2014	Gerard Ryan	2,172	74.2%	100%
2013	Gerard Ryan	1,037	100%	–
2012	Gerard Ryan ¹	889	80%	–
	John Harnett ²	718	–	–
2011	John Harnett	943	67%	–
2010	John Harnett	952	80%	–
2009	John Harnett	603	–	–

1. Gerard Ryan was appointed Chief Executive Officer on 1 April 2012.

2. John Harnett resigned on 31 March 2012.

Directors' Remuneration report continued

Relative spend on pay

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividend:

£million unless otherwise stated	2017	2016	Percentage change
Overall expenditure on pay	193.0	175.5	10.0% ¹
Dividend paid in the year	27.6	27.4	0.7%

1. The percentage increase at constant exchange rates is 7.1%.

Other directorships

The executive directors currently hold no other directorships or external appointments.

Directors' shareholdings and share interests (audited information)

The interests of each person who has served as a director of the Company during the year as at 31 December 2017 (together with interests held by his or her persons closely associated) are shown in the table below. A number of non-executive directors are below the shareholding requirement, which they are expected to build up within three years of appointment to the Board. Jayne Almond and John Mangelaars are currently within this three year time period. When both Cathryn Riley and Richard Moat bought shares they bought sufficient to meet the shareholding requirement. Executive directors are required to retain half of any vested Company share scheme options until the shareholding requirement is met.

	Shares held	Options held							
	Owned outright	Unvested and subject to performance conditions	Unvested and subject to deferral only	Unvested and subject to continued employment	Vested but not yet exercisable and subject to continued employment	Vested and exercisable, but not yet exercised	Shareholding required (% salary/fee)	Shareholding (% salary/fee) ¹	Requirement met
Executive directors ²									
Gerard Ryan	743,195	875,017	138,724	27,257	12,839	–	200	291	Yes
Justin Lockwood	56,460	287,243	59,239	11,688	2,255	250	200	48	No
Non-executive directors ³									
Jayne Almond	41,300	–	–	–	–	–	100	148	Yes
Tony Hales	75,000	–	–	–	–	–	100	269	Yes
John Mangelaars	10,000	–	–	–	–	–	100	36	No
Richard Moat	15,000	–	–	–	–	–	100	54	No
Cathryn Riley	14,795	–	–	–	–	–	100	53	No
Dan O'Connor	41,500	–	–	–	–	–	100	41	No

1. Based on a share price of 197.5 pence, being the closing price on 29 December 2017 and using the non-executive directors base fee.

2. Executive directors are expected to acquire a beneficial shareholding over time with 50% of all share awards vesting to be retained until the requirement is met.

3. Non-executive directors are expected to acquire a beneficial shareholding equivalent to 100% of their director fee within three years of appointment.

There were no changes to these interests between 31 December 2017 and 1 March 2018.

No director has notified the Company of an interest in any other shares, transactions or arrangements which requires disclosure.

The current shareholding requirements for executive and non-executive directors are described on page 65.

In addition, the following director had acquired interests in the Sterling Retail Bond as follows:

Director	Retail bond as at 31 December 2017
Cathryn Riley	£28,800

Executive directors' interests in the Company share options (audited information)

	Date of award	Awards held at 31 December 2016	Awarded in 2017	Exercised in 2017	Lapsed in 2017 ¹	Awards held at 31 December 2017	Performance condition period	Share price date of grant (p)	Exercise price (p)	Exercise period
Gerard Ryan										
PSP	1 Aug 2013	32,079	-	(32,079)		-	1 Jan 2013 – 31 Jul 2016	636	-	1 Aug 2016 – 31 Jul 2023
	4 Mar 2014	110,252	-	(12,839)	(84,574)	12,839	1 Jan 2014 – 31 Dec 2016	525	-	4 Mar 2017 – 3 Mar 2024
	2 Mar 2015	144,508	-	-	-	144,508	1 Jan 2015 – 31 Dec 2017	432	-	2 Mar 2018 – 1 Mar 2025
	23 Mar 2016	211,153	-	-	-	211,153	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
	11 Apr 2017	-	370,408			370,408	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
CSOP	23 Mar 2016	10,224	-	-	-	10,224	1 Jan 2016 – 31 Dec 2018	282	293	23 Mar 2019 – 22 Mar 2026
DSP: Deferred	14 Mar 2014	58,096	-	(58,096)	-	-	-	528	-	-
Matching	14 Mar 2014	58,096	-	(13,531)	(44,565)	-	1 Jan 2014 – 31 Dec 2016	528	-	14 Mar 2017 – 13 Mar 2024
Deferred	2 Mar 2015	56,112	-	-	-	56,112	-	432	-	-
Matching	2 Mar 2015	56,112	-	-	-	56,112	1 Jan 2015 – 31 Dec 2017	432	-	2 Mar 2018 – 1 Mar 2025
Deferred	23 Mar 2016	51,004	-	-	-	51,004	-	282	-	-
Matching	23 Mar 2016	51,004	-	-	-	51,004	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
Deferred	11 Apr 2017	-	31,608	-	-	31,608	-	170	-	-
Matching	11 Apr 2017	-	31,608	-	-	31,608	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
SAYE	29 Mar 2012	7,777	-	-	-	7,777	-	-	198	1 Jun 2019 – 30 Nov 2019
	23 Aug 2017	-	19,480	-	-	19,480	-	-	154	1 Nov 2022 – 31 May 2023
Total		846,417	453,104	(116,545)	(129,139)	1,053,837				

1. The March PSP and March DSP Matching 2014 both vested at 23.29% for Gerard Ryan, the rest of the share options lapsed.

Directors' Remuneration report continued

Executive directors' interests in the Company share options

	Date of award	Awards held at 31 December 2016	Awarded in 2017	Exercised in 2017	Lapsed in 2017 ¹	Awards held at 31 December 2017	Performance condition period	Share price date of grant (p)	Exercise price (p)	Exercise period
Justin Lockwood ²										
PSP	1 Aug 2013	3,860	-	(3,860)	-	-	1 Jan 2013 – 31 Jul 2016	636	-	1 Aug 2016 – 31 Jul 2023
	4 Mar 2014	22,930	-	(2,005)	(18,920)	2,005	1 Jan 2014 – 31 Dec 2016	525	-	4 Mar 2017 – 3 Mar 2024
	2 Mar 2015	28,874	-	-	-	28,874	1 Jan 2015 – 31 Dec 2017	432	-	2 Mar 2018 – 1 Mar 2025
	23 Mar 2016	43,246	-	-	-	43,246	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
	11 Apr 2017	-	190,705	-	-	190,705	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
CSOP	4 Mar 2014	2,854	-	-	(2,354)	500	1 Jan 2014 – 31 Dec 2016	525	525	4 Mar 2017 – 3 Mar 2024
	2 Mar 2015	929	-	-	-	929	1 Jan 2015 – 31 Dec 2017	432	432	2 Mar 2018 – 1 Mar 2025
	23 Mar 2016	3,744	-	-	-	3,744	1 Jan 2016 – 31 Dec 2018	282	293	23 Mar 2019 – 22 Mar 2026
DSP: Deferred	14 Mar 2014	15,058	-	(15,058)	-	-	-	528	-	-
Matching	14 Mar 2014	5,019	-	(878)	(4,141)	-	1 Jan 2014 – 31 Dec 2016	528	-	14 Mar 2017 – 13 Mar 2024
Deferred	2 Mar 2015	11,834	-	-	-	11,834	-	432	-	-
Matching	2 Mar 2015	3,944	-	-	-	3,944	1 Jan 2015 – 31 Dec 2017	432	-	2 Mar 2018 – 1 Mar 2025
Deferred	23 Mar 2016	11,687	-	-	-	11,687	-	282	-	-
Matching	23 Mar 2016	3,895	-	-	-	3,895	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
Deferred	11 Apr 2017	-	35,718	-	-	35,718	-	170	-	-
Matching	11 Apr 2017	-	11,906	-	-	11,906	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
SAYE	26 Aug 2016	8,372	-	-	(8,372)	-	-	-	215	1 Nov 2019 – 30 Apr 2020
	23 Aug 2017	-	11,688	-	-	11,688	-	-	154	1 Nov 2022 – 31 May 2023
Total		166,246	250,017	(21,801)	(33,787)	360,675				

1. The March PSP, CSOP and DSP Matching 2014 all vested at 17.48% for Justin Lockwood, the rest of the share options lapsed.

2. Justin Lockwood's share options are reported as at 31 December 2016, even though they were not reported in the Annual Report and Financial Statements 2016 to ensure accurate reporting.

The mid-market closing price of the Company's shares on 29 December 2017 was 197.5 pence and the range during 2017 was 222.0 pence to 157.5 pence.

The aggregate gains of directors arising from the exercise of options granted under the PSP and DSP in the year totalled £233,064.

Share dilution

The Company manages dilution rates within the standard guidelines of 10% of issued ordinary share capital in respect of all employee share scheme and 5% in respect of discretionary schemes.

LTIP and DSP awards are satisfied through the release of shares held in the Company's treasury account.

Shareholder voting

The table below summarises voting outcomes at the 2015, 2016 and 2017 AGMs (% of total votes cast):

AGM		For	Against	Withheld ¹
2015	Annual Remuneration Report	98.90%	1.10%	5.00%
2016	Annual Remuneration Report	92.37%	7.63%	0.31%
2017	Annual Remuneration Report	99.20%	0.80%	0.63%
2017	Directors' Remuneration Policy	99.14%	0.86%	0.01%

1. Votes withheld are not counted in the votes for or against a resolution but would be considered by the Committee in the event of a significant number of votes being withheld.

Statement of implementation

Directors' remuneration policy in the following financial year

The base salary for the Chief Executive Officer will be set at £520,000 for 2018.

The base salary for the Chief Financial Officer will be set at £280,000 for 2018.

Pension and benefits are in line with benefits stated in the 2017 Policy table.

Under the 2017 Policy the maximum opportunity is 100% of base salary and the on-target opportunity is 65% of base salary. The performance measures are 80% on financial and strategic objectives and 20% on personal objectives, as per the 2017 Policy rules. Targets are not disclosed on a forward-looking basis because they are considered by the Board to be commercially sensitive and will continue to be disclosed retrospectively to ensure transparency. The Committee expects to make 2018 LTIP awards in accordance with the 2017 Policy, but at the time of publishing the Annual Report and Financial Statements the awards and associated targets had not yet been tabled at the Committee for approval. The 2018 LTIP awards made, and the associated targets, will be disclosed at the latest in next year's Directors' Remuneration report.

It is expected that the LTIP (PSP and DSP matching shares) awards granted to the executive directors during 2015 will not vest in 2018.

Consideration by the directors of matters relating to directors' remuneration

The following directors were members of the Remuneration Committee when matters relating to the directors' remuneration for the year were being discussed and are considered to be independent:

- Cathryn Riley (Chair)
- Jayne Almond
- Tony Hales
- Richard Moat

The Committee received assistance from the senior management team and Neil Robson (Group Head of Reward). Other members of management may attend meetings by invitation except when matters relating to their own remuneration are being discussed.

Advisor to the Committee

Willis Towers Watson, which was appointed in April 2016, provides independent remuneration advice to the Committee. During 2017 total fees in respect of advice to the Committee (based on time and materials) totalled £70,000 (excluding VAT). Willis Towers Watson is a founding member of the Remuneration Consultants Group and signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at www.remunerationconsultantsgroup.com. The Committee is satisfied that the advice it receives is objective and independent, and that Willis Towers Watson does not have any connections with the Company that may impair its independence.

Approved by the Board



Cathryn Riley
Chair

1 March 2018

Compliance with the UK Corporate Governance Code

A: Leadership

A.1: The role of the Board

The Board is responsible for the long-term success of the business and for ensuring that the business operates in the best interests of all its stakeholders. The Board report on pages 48 to 50 gives details of the Board's role and work in 2017 and forms part of this Directors' report. The Board meets regularly throughout the year providing leadership and strategic direction. Our strategy can be found on pages 12 and 13 and our business model on pages 8 and 9. There is a formal schedule of matters reserved specifically for decision by the Board, published at www.ipfin.co.uk. Other matters are delegated specifically to six principal Board Committees. The Chairman of each Committee briefs the Board at each meeting on the principal items that were discussed, decisions made and key issues. Their terms of reference are also available at www.ipfin.co.uk and from the Company Secretary.

The day-to-day running of the business is delegated to the Executive Committee. In 2017, this comprised the Chief Executive Officer, the Interim Chief Financial Officer (until 23 February 2017) and the Chief Financial Officer (from 23 February 2017). The Executive Committee met frequently during the year to consider a wide range of matters.

The Disclosure Committee met as required to consider announcement obligations to the London and Warsaw Stock Exchanges. During 2017, it comprised the Chief Executive Officer, the Interim Chief Financial Officer (until 23 February 2017) and the Chief Financial Officer thereafter, and the Company Secretary. It met 10 times.

 **For our statement of overall compliance**
see page 45

"Faced with a challenging external environment, we remain resolutely steadfast in maintaining our high standards of internal governance."

Dan O'Connor
Chairman

Our governance framework extends to operational activities, with decision-making and oversight responsibilities delegated to a series of Group governance committees, as shown in 'Our governance and oversight structure' at www.ipfin.co.uk.

A.2: Division of responsibilities

The Board has approved a statement of the division of responsibilities between the Chairman (see A.3 below), the Senior Independent Director (see A.4 below) and the Chief Executive Officer.

The Chief Executive Officer is responsible for developing and implementing the strategy agreed by the Board and for all executive matters (apart from those reserved to the Board and the Board Committees) and delegates accordingly.

A.3: The Chairman

The Chairman is responsible for chairing Board meetings and monitoring their effectiveness, and chairing the AGM and Nomination Committee. The Chairman was independent on appointment. The ongoing test of independence does not apply to the Chairman.

A.4: Non-executive directors

The independent non-executive directors have been appointed for a fixed period of three years, subject to re-election by shareholders. The initial period may be extended for a further period. Their letters of appointment may be inspected at our registered office and are available from the Company Secretary. Jayne Almond, a non-executive director, has advised the Board that she will not be seeking re-election at the Company's 2018 AGM.

Each of the non-executive directors has been formally determined by the Board to be independent for the purposes of the Code. In the case of Tony Hales, the Board is cognisant of the fact that he will have served than 10 years as a director at the time of the next AGM. The Board has considered his position carefully in light of his tenure, and is of the view that he continues to be fully independent in character and judgment, and that his experience remains invaluable to the Company.

Tony Hales is the Senior Independent Director. He is available to shareholders should they have concerns which contact through the normal channels of Chairman, Chief Executive Officer and Chief Financial Officer has failed to address or for which such contact is inappropriate. The Senior Independent Director will review the performance of the Chairman on an annual basis. In carrying out this review, the Senior Independent Director will consult with other

Board members and consider the relationship between the Chairman and the Chief Executive Officer.

The Chairman has held a number of sessions with the non-executive directors without executive directors present, and the non-executive directors have met without the Chairman.

Where directors have concerns about the running of the Company, which cannot be resolved, these are recorded in the Board minutes. No such concerns have been raised during the period under review.

B: Effectiveness

B.1: The composition of the Board

At 31 December 2017, the Board comprised five non-executive directors, two executive directors and the Chairman. Biographical details and committee membership are shown on pages 46 and 47. Details of our diversity policy can be found in the Nomination Committee report on page 52.

B.2: Appointments to the Board

Justin Lockwood, our Chief Financial Officer, was appointed to the Board on 23 February 2017. Further detail relating to the recruitment process under way to find a new Senior Independent Director can be found in the Nomination Committee report on pages 51 and 52.

B.3: Commitment

Our policy is that the Chairman and the non-executive directors should have sufficient time to fulfil their duties, including chairing a Board Committee as appropriate. A non-executive director should not hold more than four other material non-executive directorships. If he/she holds an executive role in a FTSE 350 company, he/she should not hold more than two other material non-executive directorships.

The Board has approved a policy on other directorships; any request for an exception to this is considered on its merits. An executive director will be permitted to hold one non-executive directorship (and to retain the fees from that appointment) provided that the Board considers this will not affect his/her executive responsibilities adversely.

The external commitments of the Chairman, Senior Independent Director and non-executive directors have been reviewed and the Board is satisfied that these do not conflict with the commitment required of them to the Company.

B.4: Development

Our policy is to provide appropriate training to directors. Training takes into account each individual's qualifications and experience and includes environmental, social and governance training as appropriate. Training needs are reviewed annually following the outcome of the Board evaluation process. Training also covers generic and specific business topics and in 2017 included presentations to the Board on subjects including cyber security and the General Data Protection Regulation. A comprehensive, individually tailored induction plan is prepared for new directors. The Board also visited Poland and received updates from the home credit and IPF Digital management teams in this market.

Case study: Meeting our teams in Poland – a personal perspective

"As a long-standing member of the Board, I have regularly visited our markets over the years and benefited greatly from the time spent discussing the business directly with our teams and visiting customers in their homes with our agents. Understanding at first-hand from those on the ground has never been more important than in 2017 when, together with the rest of the Board, I visited Poland and spent two full days both being briefed and in turn constructively challenging the management teams from our home credit and IPF Digital businesses.

In our discussions with the home credit team, we focused particularly on tax and other regulatory matters. I was particularly impressed by the energy, enthusiasm and sheer resilience displayed by the team as they navigate the complexities these bring. Their detailed understanding of the issues they face and determination to find solutions was great to see. It was also good to be able to convey face to face the level of support they have from myself and the rest of the Board in addressing these additional business complexities.

I was similarly impressed with the drive shown by our IPF Digital team as they develop and grow this increasingly important part of the business. I saw an agile and creative group of people, committed to opening up new channels and product opportunities to both new and existing customers where balancing growth with appropriate risk management is critical."

Tony Hales

Senior Independent Director



The team in Poland present to the Board during their two day visit.

B.5: Information and support

All directors are able to consult with the Company Secretary, who also updates the Board on developments relating to governance as appropriate. The appointment and removal of the Company Secretary is a matter for the Board. Ben Murphy, the former Group Legal Director and Company Secretary, was Company Secretary until he left IPF on 20 January 2017. The role of Company Secretary was then undertaken on an interim basis by Trudy Ellis until the appointment of James Ormrod as Chief Legal Officer and Company Secretary on 7 June 2017. The Company Secretary is secretary to the Board Committees. Any director may take independent professional advice at the Company's expense relating to the performance of his/her duties.

B.6: Board and Committee evaluation

In 2017, the Board and its Committees carried out an internal evaluation of their performance facilitated by the Company Secretary. Directors and Committee members completed a questionnaire, the results of which were collated and presented for discussion at the December 2017 Board meeting. Details of the principal outcomes relating to the Board can be found on page 49.

An external evaluation is required by the Code at least every three years. Externally facilitated evaluation was last undertaken in late 2016, led by David Mensley of EquityCommunications Limited, who has no other connection with IPF. We intend to carry out our next externally facilitated evaluation in 2019.

B.7: Election/re-election

Under our Articles of Association, each director must offer himself/herself for re-election every three years. Jayne Almond, a non-executive director, has advised the Board that she will not be seeking re-election at the Company's 2018 AGM. After nine years, a director, other than an executive director, must offer himself/herself for re-election annually. A director who is appointed initially by the Board is subject to election at the next AGM. Consequently, the Chief Financial Officer, Justin Lockwood, stood for election at our AGM in 2017. In accordance with best corporate governance practice, all directors will offer themselves for re-election again at our AGM on 4 May 2018. Details of the directors, including their key strengths and contributions, are shown on pages 46 and 47.

C: Accountability

C.1: Financial and business reporting

A statement of the directors' responsibilities in relation to the Financial Statements and the Group's status as a going concern is on page 35. The Group's strategy and business model, key performance indicators and relevant risks are on pages 8 and 9, 12 and 13, 18 and 19 and 38 to 43. A statement confirming that the Board considers that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy is on page 88.

C.2: Risk management and internal control

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten our business model, future performance, solvency or liquidity. Details can be found on pages 36 to 43. The Board determines the Company's risk appetite and has established risk management procedures and systems of internal control. On behalf of the Board, the Audit and Risk Committee has monitored the Group's systems of internal control and its processes for managing principal risks throughout 2017.

C.3: Audit Committee and auditors

The report of the Audit and Risk Committee is set out on pages 53 to 57. This details its composition, role and responsibilities, work during 2017, interactions with the external auditor and our policy regarding external auditor tendering and rotation. The Committee's terms of reference are available at www.ipfin.co.uk.

D: Remuneration

D.1: The level and components of remuneration

Full details of the Company's policy on remuneration are contained in the Directors' Remuneration Report on pages 60 to 77.

D.2: Procedure

Development of the policy on executive remuneration is delegated to the Remuneration Committee. Details are set out in the Directors' Remuneration Report. No director is involved in deciding his/her own remuneration.

E: Relations with shareholders

E.1: Dialogue with shareholders

The executive directors communicate with institutional shareholders regularly. The Chairman and Senior Independent Director also meet with shareholders from time to time. The Chairman is responsible for ensuring that appropriate channels of communication are established between the executive directors and shareholders and for ensuring that the views of major shareholders are made known to the Board. A programme of investor engagement is in place and the Board is updated on a regular basis. The Board is also briefed regularly on shareholdings and, twice a year, we seek feedback from major shareholders on their views on strategy, performance and management.

The Board seeks to present IPF's position and prospects clearly. The Annual Report and Financial Statements, circulars and announcements made to the London and Warsaw Stock Exchanges are posted on our website: www.ipfin.co.uk.

Shareholders, whatever the size of their shareholding, are able to express their views via email or telephone to the Investor Relations Manager.

The Investors section of our website gives shareholders and potential investors access to a wealth of Company information.

Case study: Investor engagement

As a publicly listed company, we are required to provide fair, balanced and understandable information to enable investors to understand our business fully so that they may make an informed investment decision. In 2017, we continued our investor engagement programme undertaking a range of meetings, conference calls, webcasts, roadshows, a Chairman's lunch and results presentations. The main areas of interest were performance, regulation, the potential impact of tax matters, funding and our digital lending strategy. One of the key communication challenges of the year was to educate investors, analysts and debt providers on the impact of the new accounting standard IFRS 9, which became effective on 1 January 2018. Around 30 investor relations stakeholders attended a technical briefing hosted by CFO Justin Lockwood and Sue Taylor, (Group Financial Controller) in November 2017 and we continue to support investors and analysts with guidance as they redevelop their IPF financial models to take into account the new standard. Further information on IFRS 9 can be found in the Financial review on pages 33 and 34.



Around 30 people attended our IFRS 9 technical briefing.

E.2: Constructive use of general meetings

We give at least 20 working days' notice of the AGM. Our policy is that the Chairman of each of the Board Committees will be available to answer questions from shareholders and there is an opportunity for shareholders to ask questions on each resolution proposed. Details of proxy votes are made available to shareholders and other interested parties by means of an announcement to the London Stock Exchange, the Warsaw Stock Exchange and on our website.

Shareholders are invited each year to the AGM. Our 2018 AGM will be held at 10.30am on Friday 4 May 2018 at International Personal Finance plc, Number Three Leeds City Office Park, Meadow Lane, Leeds LS11 5BD. An explanation of the items of business will be contained in the Notice of Annual General Meeting 2018 to be sent to shareholders and dated 20 March 2018.

Case study: An opportunity to meet shareholders at our 2017 AGM

Our last AGM took place on 3 May 2017 at our UK head office in Leeds. This gave shareholders the opportunity to meet our Board face to face and to ask questions. Twenty-two resolutions were put to shareholders and all were passed. One of the main items of business was a resolution to approve our new Directors' Remuneration Policy, the previous policy having reached its renewal point. Over 99% of shareholders who registered their vote voted in favour of the new policy. The approved policy, which is set out on pages 62 to 68, was revised to align our executive reward structure with our evolved strategy, taking into account investor feedback received during a consultation process. It is important for us to have the right incentives in place to motivate everyone to deliver our strategy. It was, therefore, pleasing that shareholders also overwhelmingly approved new rules for equity incentive schemes, which cover a broad range of employees in the organisation. Details of these can be found on page 84. We look forward to meeting shareholders again at our 2018 AGM and hope that you will be able to join us in Leeds on Friday 4 May 2018.



Dan O'Connor addresses our 2017 Annual General Meeting in Leeds.

Other disclosures

In addition to the Code, we are required to comply with the Companies Act 2006, the Disclosure Guidance and Transparency Rules and the Listing Rules. Where not covered elsewhere, these requirements are included in this section.

Listing Rule 9.8.4R disclosures

You can find the disclosures required under the Financial Conduct Authority's Listing Rule 9.8.4R in the sections of the Annual Report and Financial Statements shown below:

Listing Rule 9.8.4R	Disclosure required	Cross-reference
(1)	Interest capitalised and related tax relief	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	Not applicable
(5)	Waiver of emoluments by a director	Not applicable
(6)	Waiver of future emoluments by a director	Not applicable
(7)	Non-pre-emptive issues of equity for cash	Not applicable
(8)	Non-pre-emptive issues of equity for cash by major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Not applicable
(11)	Provision of services by a controlling shareholder	Not applicable
(12) and (13)	Shareholder waiver of dividends	Not applicable
(14)	Statement by the Board	Not applicable

Constitution

Registration

International Personal Finance plc is registered in England and Wales under Company Number 6018973.

Articles

Our Articles of Association (the 'Articles') may only be amended by a special resolution at a general meeting of shareholders and are available online at www.ipfin.co.uk, by writing to the Company Secretary or from Companies House in the UK.

Share capital

Details of our share capital are shown in note 27. On 31 December 2017, there were 234,244,437 ordinary shares of 10 pence each in issue. No shares were issued during the year. None were bought back, transferred to treasury or cancelled. The ordinary shares can be held in certificated or uncertificated form.

Appointment and removal of directors

The Board may appoint any person as a director of the Company to hold office until the next AGM, when they may stand for election by shareholders. Under the Articles, directors retire by rotation on a three-yearly basis. However, in line with the Code, all directors of the Company stand for re-election annually.

Directors' powers

Authority to purchase shares

At the 2017 AGM, we received shareholder authority to buy back up to 22,258,133 of our own shares until the earlier of the conclusion of the 2018 AGM or 2 August 2018. Any ordinary shares so purchased could be cancelled or held in treasury. This authority was not exercised in 2017. A further authority to purchase our own shares will be sought at the 2018 AGM.

Power to allot securities and pre-emptive rights

As at 31 December 2017, the directors had authority to allot further securities up to an aggregate nominal amount of £7,419,000 and, broadly, up to a further £7,419,000 for a rights issue. Further authorities will be sought at the 2018 AGM including the disapplication of pre-emption rights in certain circumstances.

Borrowing powers and other restrictions

The directors are responsible for the management of the Company and may exercise all the powers of the Company, subject to the provisions of the relevant statutes and our Articles. For example, our Articles contain specific provisions and restrictions regarding IPF's powers to borrow money; provisions relating to the appointment of directors, subject to subsequent shareholder approval; delegation of powers to a director or committees; and, subject to certain exceptions, a director shall not vote on or be counted in a quorum in relation to any resolution of the Board in respect of any contract in which he/she has an interest which he/she knows is material.

Directors' conflicts of interest

To take account of the Companies Act 2006, the directors adopted a policy on conflicts of interest and established a register of conflicts. The directors consider that these procedures have operated effectively in 2017 and up to 1 March 2018.

Directors' indemnities and insurance

Our Articles permit us to indemnify our directors (or those of any associated company) in accordance with the Companies Act 2006. However, no qualifying indemnity provisions were in force in 2017 or at any time up to 1 March 2018 other than under the International Personal Finance plc Pension Scheme (the 'Pension Scheme').

Under the deed establishing the Pension Scheme, we grant an indemnity to the trustee and the directors of the trustee. Two of these directors are directors of subsidiaries of IPF. We have appropriate directors' and officers' liability insurance in place.

Shareholders

Shareholders' rights and obligations

The full rights and obligations attached to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in our Articles. A summary of those rights and obligations can be found below.

Restrictions on shareholders' rights

Subject to any rights attached to existing shares, any share may be issued with or have attached to it such rights and restrictions as the Company may decide by ordinary resolution or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may decide. Such rights and restrictions shall apply to the relevant shares as if the same were set out in the Articles.

Restrictions on holding securities

No person shall be recognised by the Company as holding any share upon any trust.

Transfer

There are no restrictions on the transfer (including requirements for prior approval of any transfers) or limitations on the holding of ordinary shares save that the Board may refuse to register the transfer of:

- a partly-paid share;
- an uncertificated share in the circumstances set out in the Uncertificated Securities Regulations 2001; and
- a certificated share if a duly executed transfer is not provided together with any necessary document of authority.

Voting

There are no restrictions on voting rights except as set out in the Articles (in circumstances where the shareholder has not complied with a statutory notice or paid up what is due on the shares).

Alteration of share capital and variation of rights

Sub-division: any resolution authorising the Company to sub-divide its shares, or any of them, may determine that, as between the shares resulting from the sub-division, any of them may have any preference or advantage or be subject to any restriction as compared with the others.

Fractions: whenever as a result of a consolidation and sub-division or sub-division of shares any holders would become entitled to fractions of a share, the Board may deal with the fractions as it thinks fit including by aggregating and selling them or by dealing with them in some other way.

Variation of rights: subject to the provisions of the Companies Act, all or any of the rights attached to any existing class of shares may from time to time be varied either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Interests in voting rights

As at 31 December 2017, we had been notified, pursuant to the Disclosure Guidance and Transparency Rules, of the following notifiable voting rights in our issued share capital.

Name ¹	Voting rights	% of issued share capital ²	Nature of holding
Standard Life Aberdeen plc	26,443,813	11.86	Indirect
FIL Limited	14,008,597	6.31	Indirect
FMR LLC	11,682,426	5.28	Indirect
Norges Bank	11,026,874	4.94	Direct
Marathon Asset Management LLP	12,841,168	5.01	Indirect
Franklin Templeton Investments Ltd	12,062,651	5.01	Indirect
Aberforth Partners LLP	11,605,513	5.01	Indirect
Old Mutual Asset Managers (UK) Ltd	12,547,167	4.88	Direct/Indirect
Schroders plc	12,287,572	4.77	Indirect
BlackRock, Inc.	11,670,102	4.54	Indirect
Investec Asset Management Ltd	8,995,482	3.50	Indirect
Oppenheimer Funds Inc/Baring Asset Management Ltd	7,769,836	3.02	Indirect
BNP Paribas Investment Partners	7,017,954	3.02	Indirect

Between 1 January and 28 February 2018, we were notified pursuant to the Disclosure Guidance and Transparency Rules of the following notifiable voting rights in our issued share capital.

Name ¹	Voting rights	% of issued share capital ²	Nature of holding
Norges Bank	11,190,871	5.02	Direct
FMR LLC	11,123,966	4.98	Indirect

1. The holdings set out in the tables above relate only to those institutions which have notified us of an interest in our issued share capital and the information is based on the last notification received.
2. The percentage of issued share capital in the table above is based on the Company's issued share capital at the point of notification.

Agreements on change of control

We do not have any agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover.

We are not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid, apart from:

- our bank facility agreements, which provide for a negotiation period following a change of control and the ability of a lender to cancel its commitment and for outstanding amounts to become due and payable;
- our Euro Medium Term Note ¹ programme, which entitles any holder of a Note to require us to redeem such holder's Notes if there is a change of control and, following such change of control, the Notes are downgraded;
- our Polish Medium Term Note ² programme, which entitles any holder of a Note to require the issuer to redeem such holder's Notes if there is a change of control and, following such change of control, the Euro Medium Term Notes are then downgraded (or if no such Notes are then outstanding, in certain other circumstances); and

- provisions in our share incentive plans may cause awards granted to directors and employees to vest on a takeover.

1. The Euro Medium Term Note programme was established in 2010. The following Notes (listed on the London or Irish Stock Exchanges) have been issued under the programme and are outstanding as at the date of this report: Hungarian forint 4 billion issued in January 2013 with a five-year term and an 11.0% coupon; sterling 101.5 million issued in May 2013 and November 2013 with a seven-year term and a 6.125% coupon; Czech crown 250 million issued in November 2013 with a five-year term and a 5.25% coupon; euro 300.0 million issued in April 2014 with a seven-year term and a 5.75% coupon; euro 28.25 million issued in May 2014 with a four-year term and a 4.25% coupon; euro 100 million 'tap' of our existing Eurobond issued in April 2015 with a six-year maturity and a 5.75% coupon; Czech crown 200 million issued in December 2015 with a three-year term and a 5.5% coupon; Romanian lei 43.5 million and 22.0 million bonds issued in December 2015 with a three-year term and a 7.0% coupon; Romanian lei 79.5 million bond issued in December 2016 with a three-year term and a 8.0% coupon (listed on the Irish Stock Exchange); and euro 12 million 'tap' of our existing Eurobond issued in December 2017 with a three-and-a-half year maturity and a 5.75% coupon.
2. Under the Polish Medium Term Note programme, a subsidiary company, IPF Investments Polska Sp. z o.o., issued 200 million Polish zloty Notes which are listed on the Warsaw Stock Exchange; they mature on 3 June 2020 and the coupon is a floating rate of six-month WIBOR plus a margin of 425 basis points.

Financial instruments

Information on financial instruments is given on pages 34 and 35 and in notes 20, 21 and 22 to the Financial Statements on pages 117 to 124.

Profit and dividends

Our policy is to adopt a progressive dividend policy, reflecting the profitability of the Group's businesses together with its capital and cash flow requirements, to target a pay-out ratio of 35% of earnings. Details of the proposed final dividend for 2017 payable in 2018 can be found on page 33. Details of past dividend payments can be found on page 137.

Employees

Employee engagement and communication

Employee engagement is key to our people strategy. In 2017, a number of markets surveyed their employees locally to understand their views and measure engagement. Engagement continues to be a strong focus and it is planned that we conduct a Group-wide survey in 2018.

We update employees on matters that concern them via staff meetings and our intranet and, where appropriate, seek feedback on decisions that affect their interests. Our 'Ask Gerard/Tell Gerard' process gives employees a direct communication channel with our CEO. We also update employees on financial and economic factors impacting the Company and management promotes a culture where two-way communication is encouraged.

Employee equity incentive schemes

Employees are able to participate in our equity share incentive schemes, which are shown below. We encourage employees to take part in our SAYE, as a way of involving them in the Company's performance.

The Company currently operates six equity incentive schemes. Details of individual grants to directors made in 2017 are set out in the Directors' Remuneration report on pages 75 and 76. The schemes are as follows:

Scheme	Abbreviated name	Eligible participants
The International Personal Finance plc Approved Company Share Option Plan	CSOP	Executive directors and senior managers
The IPF Deferred Share Plan	DSP	Executive directors and senior managers
The International Personal Finance plc Have Your Share Plan	Have Your Share Plan	Overseas employees
The IPF Performance Share Plan	PSP	Executive directors and senior managers
The IPF Save As You Earn Plan	SAYE	Executive directors and UK employees
The International Personal Finance plc Discretionary Award Plan	Discretionary Award Plan	Employees other than executive directors

Details of outstanding awards are as follows:

Scheme	Awards outstanding at 31 December 2016	Awards lapsed in 2017	Awards exercised/vested in 2017	Awards outstanding at 31 December 2017	Exercise price (if any)	Normal exercise/vesting date	Awards exercised/vested from 1 January to 28 February 2018
CSOP	390,626	(89,766)	–	300,860	293p – 636p	23 Jul 2013 – 22 Mar 2026 ¹	–
DSP	1,314,751	(128,380)	(304,746)	1,820,921	–	24 Mar 2014 – 10 Apr 2027	10,754
Have Your Share Plan	253,779	(163,663)	(10,152)	79,964	–	2 Sept 2018	–
PSP	4,329,193	(1,290,668)	(311,088)	6,633,574	–	23 Jul 2013 – 10 Apr 2027 ¹	34,849
SAYE	433,509	(351,263)	(7,368)	529,880	154p – 509p	1 Nov 2017 – 30 Apr 2023 ²	–
Discretionary Award Plan	320,000	–	–	320,000	–	8 May 2018 – 5 Sept 2019	–

1. Half of the awards that vest are not released for a further year.

2. Exercise dates vary depending on whether the employee has chosen a three, five or seven-year savings contract.

Employee benefit trust

We operate an employee trust with an independent trustee, Link Trustees (Jersey) Limited, to hold shares pending employees becoming entitled to them under our equity incentive schemes. On 31 December 2017, the trustees held 518,008 shares in International Personal Finance plc. The trust waives its dividend entitlement and abstains from voting at general meetings. Shares to be acquired through our share plans rank pari passu with the shares in issue and have no special rights. In addition, initial shares purchased by overseas employees in The International Personal Finance plc Have Your Share Plan are held in an employee trust operated by Link Market Services Trustees (Nominees) Limited pending maturity of the plan.

Employment policies

Equal opportunities

The Group is an equal opportunities employer. It is our policy that no job applicant, member of staff or agent will receive less favourable treatment because of race, colour, nationality, ethnic or other national origin, gender, sexual orientation, marital status, age, disability or religion. The aim of this policy is to ensure that recruitment and progression opportunities are open to all and are based purely on merit, with all employees having the same access to training and career development.

Human rights, diversity and modern slavery

Our approach to human rights and diversity is outlined on page 23. Information on the gender split across the Group at 31 December 2017 is shown on page 23. Our Board diversity policy is described on page 52. Our statement on the Modern Slavery Act 2015 is available on our website at www.ipfin.co.uk.

Whistle-blowing service

We have a third-party whistle-blowing service in operation. This allows employees to raise issues of concern about possible improprieties in matters of financial reporting or otherwise on a confidential and, if preferred, anonymous basis. Reports are received on any matters raised through these services and we monitor their use throughout the Group.

Anti-bribery policy

The Group is committed to conducting its affairs so as to combat bribery and corruption. The Group's trading activities must be conducted with honesty and integrity and in accordance with the law, ensuring that the Group is compliant with the anti-bribery and/or anti-corruption legislation of any jurisdiction applicable from time to time to any Group company. The Group operates controls and procedures to ensure that no one acting on its behalf:

- offers, promises or gives a bribe;
- requests, agrees to accept or receives a bribe; nor
- bribes a public official to obtain or retain business or an advantage.

All companies, employees and agents are required to comply with the relevant anti-bribery and corruption legislation in their markets. In addition, because of the extra-territorial application of the UK Bribery Act 2010 to overseas subsidiaries, all employees and agents are also required to comply with the provisions of this Act.

Other external stakeholders

Supplier policy statement

We agree terms and conditions for our business transactions with suppliers and payment is made in accordance with them, subject to the terms and conditions being met by the supplier. International Personal Finance plc acts as a holding company and had no material trade creditors at 31 December 2017. The average number of days' credit taken by the Group during the year was 33 days (2016: 27 days).

External oversight

The Group's activities in Mexico and Spain are subject to general trade licences only, as opposed to any licensing or supervision by a financial authority. A licensing regime was introduced in the Czech Republic in 2016 and the business there was granted a licence by the Czech National Bank in February 2018. In Poland, the Group's home credit business, Provident Polska s.a., and the Group's digital business, IPF Polska sp. z o.o., are registered in the special register of the Komisja Nadzoru Finansowego ('KNF') (the Polish Financial Supervision Authority). In Lithuania, the business is included in a register of credit providers maintained by the National Bank and in Finland by the Regional State Administrative Agency of South Finland. As reported in our Q3 2017 trading update, there were further regulatory changes in Romania, which will mean that from early March 2018 we expect our business there to be supervised by the National Bank of Romania for the first time. The Group's operation in Hungary is subject to an operating licence issued by the National Bank, in Estonia to a licence issued by the Financial Supervision Authority, and in Latvia to a licence from the Consumer Rights Protection Centre. The business in Australia holds a credit licence issued by the Australia Securities and Investment Commission (Australia). Following the wind-down of the business in Slovakia, its operating licence was surrendered in January 2018.

Budgetary process and financial reporting

The Board approves a detailed budget each year (usually in December) for the year ahead. Actual performance against budget is monitored regularly and reported monthly for review by the directors. The Board requires its subsidiaries to operate in accordance with corporate policies.

The financial statements for the Group are prepared by aggregating submissions from each statutory entity. Prior to submission to the Group reporting team, each country submission is reviewed and approved by the Finance Director of the relevant country. When the submissions have been aggregated and consolidation adjustments made to remove intercompany transactions, the consolidated result is reviewed by the Chief Financial Officer. The results are compared with the budget and prior year figures, and any significant variances are clarified. Checklists are completed by each statutory entity and by the Group reporting team to confirm that all required controls, such as key reconciliations, have been performed and reviewed.

The financial statements, which are agreed directly to the consolidation of the Group results, are prepared by the Group reporting team and reviewed by the Group Head of Finance and the Chief Financial Officer. The supporting notes to the financial statements are prepared by aggregating submission templates from each market and combining them with central information where applicable. The financial statements and all supporting notes are reviewed and approved by the Chief Financial Officer and they are signed by the Chief Executive Officer and the Chief Financial Officer.

Report on environment, social and governance ('ESG') matters

The Board takes regular account of the significance of ESG matters to the Group and has identified and assessed the significance of ESG risks to the Company's short and long-term value as part of the risk management process. It recognises that a proactive programme of reputation management through a range of progressive, responsible business initiatives adds to the sustainable long-term value of the Company. Responsibility for this area rests with the Chief Executive Officer who sits on the Reputation and Regulation Committee, which sets guidance, provides direction and oversees policies and progress on ESG matters. There is a range of appropriate corporate standards, policies and governance structures covering all operations.

Key ESG issues that impact our stakeholders are: business ethics; public perception and ensuring that work with communities is relevant; social and financial exclusion; health and safety; and attracting and retaining skilled and well-motivated people.

Corporate affairs activity, health and safety, people management, responsible lending and business ethics issues were all discussed at Board meetings in 2017. The Board has received adequate information to make an assessment against ESG risks.

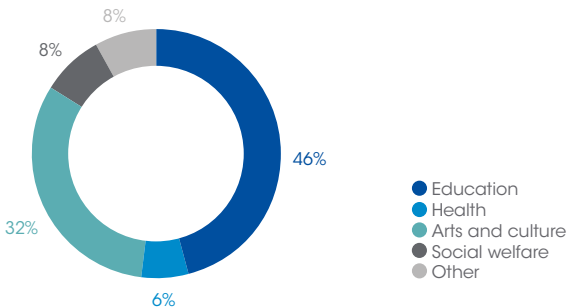
We view the health and safety of our employees, agents and other people who may be affected by our activities as a key strategic priority. Our arrangements for safety have been independently assessed against OHSAS 18001 and our home credit markets, including Group head office, were certified as compliant. An update on the framework is reported annually to the Board. Each subsidiary board is responsible for the implementation of its own health and safety policy and health and safety is considered regularly at Group board meetings. We provide helplines in all home credit markets to provide support and guidance for agents and staff concerned about their safety or wellbeing.

No political donations were made.

Community investment

Community investment activity is focused on the needs of the communities we serve and we utilise London Benchmarking Group ('LBG') methodology to measure this investment.

Community donations invested



When setting incentives, the Remuneration Committee takes account of all implications, including the need to avoid motivating inappropriate behaviour inadvertently. In setting performance targets, account is taken of ESG risks. Details of the bonus scheme are set out in the bonus section of the statement of the Company's policy on directors' remuneration in the Directors' Remuneration

£680,000

invested in local communities across the Group (2016: £488,878)

3,056

hours volunteered by employees in Company time (2016: 3,545) and a further 1,935 hours in their own time

£114,000

raised by employees for community investment purposes

report on pages 63 and 71. ESG matters are also taken into account in the training of directors.

Full information on specific ESG matters, and how these are managed, can be found in the sustainability section of the Company's website (www.ipfin.co.uk).

Case study: Business ethics - finding the right way

During 2017, we continued to strengthen our business ethics programme. We introduced an ethics board game which is tailored to our business and allows home credit employees in the field to discuss and explore our Code of Ethics within the context of their everyday roles. The game encourages interactive ethical reflection and helps to empower employees with the skills and tools they need to make ethical decisions and to challenge any behaviour they believe to be unethical. Overall, 98% of employees and 91% of agents completed business ethics training successfully in 2017.

Once again, we ran a business-wide ethics event in 2017, which included a live webcast with Gerard Ryan and other senior business leaders. During the event, employees had the chance to ask questions and give their opinions through a smartphone app.



Employees in the Czech Republic debate ethical issues using the IPF ethics board game.

Carbon reporting

We have reported on all of the carbon emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Our emissions data has been calculated in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard, and we have used emissions factors from the UK Government's Greenhouse Gas Conversion Factor Repository. The emissions data covers:

- our UK head office;
- home credit operations in Poland, the Czech Republic, Hungary, Mexico and Romania; and
- IPF Digital operations in Finland, Estonia, Lithuania, Latvia, Poland, Spain, Mexico and Australia.

These sources fall within our Consolidated Financial Statements. Where available data is incomplete we have extrapolated data.

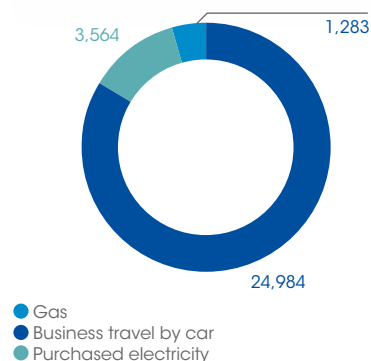
In 2017, our GHG emissions for scope 1 and 2 decreased by 5.6%. When normalised by customer number our Scope 1 and 2 GHG emissions increased by 5.0%. In 2017, we have reported a greater proportion of gas data due to being able to obtain this data from landlords in Poland and Hungary for the first time. We have used this data to make an approximation of the full extent of data for 2013-2016 and are restating this data from previous reporting.

The decrease in business travel by car can be explained by a reduction in car fleet in some of our European established businesses as well as the closure of our operations in Slovakia, Lithuania and Bulgaria.

We aim to reduce our environmental impact where possible and our MyProvi programme is set to deliver resource efficiencies for the business. During 2018, we hope to realise paper savings through the reduction of administrative paper use in the field. By the end of the year, we expect to see digital collecting lists and receipting across our home credit operations in Europe. A full environmental policy statement can be found in the sustainability section of the Company's website (www.ipfin.co.uk).

		Tonnes CO ₂ e					
Carbon emissions sources	Travel and utilities	2013	2014	2015	2016	2017	Difference
Scope 1	Gas	1,987	2,266	1,634	1,126	1,283	13.9%
	Business travel by car	24,267	23,996	25,490	27,013	24,984	(7.5%)
Scope 2	Purchased electricity	5,280	5,116	4,040	3,466	3,564	2.8%
		31,534	31,378	31,164	31,605	29,831	(5.6%)
Scope 1 and 2	CO ₂ e emissions by customer	0.013	0.012	0.012	0.012	0.013	5.0%

Total CO₂ emissions 2017 (Tonnes CO₂e)



Annual Report and Financial Statements

International Personal Finance plc presents its own annual report and its Consolidated Annual Report as a single Annual Report.

Directors' responsibilities in relation to the financial statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law, the directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the International Accounting Standard ('IAS') Regulation and have also chosen to prepare the Parent Company Financial Statements under IFRSs as adopted by the European Union. Under company law, the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these Financial Statements, IAS 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Post-balance sheet events and future developments

There are no post-balance sheet events. Information on indications of future developments is provided in the strategic report.

Responsibility statement

This statement is given pursuant to Rule 4 of the Disclosure Guidance and Transparency Rules.

It is given by each of the directors as at the date of this report, namely: Dan O'Connor, Chairman; Gerard Ryan, Chief Executive Officer; Justin Lockwood, Chief Financial Officer; Tony Hales, Senior independent non-executive director; Jayne Almond, non-executive director; John Mangelaars, non-executive director; Richard Moat, non-executive director; and Cathryn Riley, non-executive director.

To the best of each director's knowledge:

- a. the Financial Statements, prepared in accordance with the IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- b. the Strategic Report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- c. the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statement of the directors in respect of the Annual Report and Financial Statements review process

The Board came to this view following a rigorous review process throughout the production schedule. The statements are drafted by appropriate members of the reporting and leadership teams and co-ordinated by the Investor Relations Manager to ensure consistency. A series of planned reviews are undertaken by the reporting team, leadership team and executive directors. In advance of final consideration by the Board, they are reviewed by the Audit and Risk Committee.

Disclosure of information to the auditor

In the case of each person who is a director at the date of this report, it is confirmed that, so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and he/she has taken all the steps that ought to have been taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern

The Board statement on its adoption of the going concern basis in preparing these financial statements is given on page 35.

The Board's review of the system of internal control

The Board is responsible for the Group's overall approach to risk management and internal control and, on the advice of the Audit and Risk Committee, has reviewed the Group's risk management and internal controls systems for the period 1 January 2017 to the date of this Annual Report and Financial Statements, and is satisfied that they are effective.

By order of the Board



James Ormrod
Company Secretary

1 March 2018

Independent auditor's report

to the members of International Personal Finance plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of International Personal Finance plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the Group and Company income statement;
- the Group and Company statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company cash flow statements;
- the Group and Company statements of changes in equity;
- the Statement of accounting policies; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• impairment of receivables• revenue recognition and calculation of the effective interest rate• accounting for the Polish tax audit challenge <p>Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ◀▶</p>
Materiality	<p>The materiality that we used in the current year was £5.0 million which was determined on the basis of 5% of profit before tax. The Parent Company materiality that we used in the current year was £2.5 million which was determined on the basis of 3% of net assets and capped at 50% of Group materiality.</p>
Scoping	<p>Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.</p>
Significant changes in our approach	<p>There have been no significant changes in our audit approach from the prior period other than the changes in key audit matters explained on page 90.</p>

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed the directors' statement on page 35 of the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent auditor's report continued

to the members of International Personal Finance plc

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 36-43 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 36 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 43 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.


We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In 2016, regulatory and legal risk was included as a key audit matter which was focused on the judgement required in relation to whether any provisions are required for customer remediation. The level of provisioning relating to legal and regulatory matters has not been material in recent years, however continued regulatory volatility may impact the future profitability of individual components. As such we consider the impact of regulatory changes within our going concern assessment. In addition going concern is not a key audit matter, and has therefore been considered above.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
 Impairment of receivables Determining impairment provisions against customer receivables is highly judgemental, requiring estimates to be made of the likely loss within the lending portfolios. As detailed in note 16, net customer receivables amounted to £1,056.9 million as of 31 December 2017 (2016: £939.9 million). We have identified the key impairment risks as being the estimation of future customer default rates for customers in arrears, and hence expected future cash flows for each portfolio. In addition, there is a risk that post model overlays made to account for emerging risks not yet observed in historical collection curves are inappropriate, with a specific focus on the impact of the Mexican earthquake and hurricanes in the current year. There is a potential risk of fraud inherent in the application of the post model overlay due to its judgemental nature and material impact on the final impairment figure and therefore profit for the year. The key audit matter is described further by the Audit and Risk Committee on page 55 and within the key assumptions and estimates on page 106. Please also see note 21 for further information.	<p>We evaluated the design, and tested the operating effectiveness of controls over the provisioning process, including the use of IT specialists within the audit team to test the key IT controls over the systems in which the source customer receivable data is maintained, and reviewing minutes from key management forums.</p> <p>Where necessary, we also tested the completeness and accuracy of information used by management to operate key lending controls, by extraction of source data from the core lending systems and independent recalculation of the relevant information.</p> <p>To test mechanical accuracy of provisioning we recalculated a sample of portfolio carrying values in accordance with the approved impairment provisioning policy and tested the accuracy of the arrears status of individual loan receivables on a sample basis to gain comfort over the accuracy of the impairment provision balance. We also assessed the implications of the above work on the accuracy and predictive nature of the cash forecasting curves.</p> <p>We evaluated the appropriateness of management's key assumptions used in the impairment calculations for customer receivables, including the estimation of customer default rates and expected future cash flows for each portfolio. This involved assessing management's tests of historical forecasting accuracy, and re-performing a sample of these tests using independent extracts of customer receivable collections data. We also challenged the appropriateness of historical data used to predict future collections performance by reference to internal and external factors affecting the business.</p> <p>Finally we reviewed and challenged the completeness and accuracy of management's provisioning overlays, by reference to analysis of recent collections performance, other identified potential impairment risks and analysis of internal and external data.</p>	<p>As a result of our audit testing we found that the assumptions used in the model to value customer receivables were appropriately applied, and that the impairment provision is considered to be reasonable.</p> <p>The rationale for the post-model overlay proposed by Management is appropriate and the valuation is within an acceptable range.</p>

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>Revenue recognition and the calculation of the effective interest rate</p> <p>The recognition of revenue on loans using an effective interest rate ("EIR") method requires significant judgement by management to determine key assumptions, in particular the expected life of each loan and related cash flows.</p> <p>There is a risk around the accuracy and completeness of the cash flows that are included in Management's calculation of the "EIR" for products issued, whilst additionally ensuring any evidence of early settlement behaviour has been considered.</p> <p>The key audit matter is described further by the Audit and Risk Committee on page 55 and within the key assumptions and estimates on page 106.</p>	<p>We evaluated the design, and tested the operating effectiveness of controls in relation to revenue recognition, and the mechanical accuracy of the models used to calculate the effective interest rates. This involved the recalculation of a sample of product and cohort effective interest rates based upon an independent extract of source data from the core lending system. We also tested the completeness and accuracy of cash flow information included within the models.</p> <p>We assessed the appropriateness of management's key assumptions used to calculate the effective interest rate by reference to the impact of recently observable early redemption behaviour on the average lives of loan receivables.</p> <p>We also confirmed that the revenue recognition policies applied to the material loan types offered by the Group were appropriate in accordance with IAS 18 Revenue and applicable accounting standards.</p>	<p>As a result of our audit testing, we found that the methodology used for the calculation of the EIR is materially accurate in the context of the accounting policies, and the requirements of the relevant accounting standards.</p>
<p>Accounting for the Polish tax audit challenge</p> <p>IPF Poland is subject to a corporation tax inspection covering the 2008, 2009, 2010 and 2011 tax years. In relation to the 2008 and 2009 tax years, the Group paid £37 million of tax and interest in January 2017, to allow an appeal process to begin. This amount is recognised as a debtor in line with IAS 12 Income Taxes. The case was listed to be heard by the District Administrative Court ("DAC") on 22 November 2017 but following the instigation of Mutual Agreement Proceedings ("MAP"), the DAC stayed the hearings. The cases are not now expected to be heard until after the MAP process is concluded.</p> <p>Our key audit matter is focused on the recoverability of the tax debtor, the likelihood of any outflow of economic benefit in relation to 2010 and beyond, and hence the need for contingent liability disclosure or provision recognition requirements.</p> <p>The key audit matter is described further by the Audit and Risk Committee on page 55 and within the key assumptions and estimates on page 106.</p>	<p>We evaluated the design, and tested the implementation of internal controls over accounting for the Polish tax audit challenge. This included reviewing minutes from key management review forums, and evaluating the process by which management commissioned and evaluated reports received from external tax advisers.</p> <p>Utilising tax specialists within the group and component audit teams, we have challenged management's assessment of the ultimate exposure under the Polish tax enquiry by reference to correspondence with the relevant tax authorities, external specialist advice commissioned by management, our independent assessment of the exposures in the context of extant tax law, and our knowledge of similar scenarios. This work included sensitising the key assumptions made by management in the context of the eventual outcome of the case, and considering the implications in terms of whether provision was required against the tax debtor, or the potential exposure on subsequent tax years.</p>	<p>Our independent analysis of the potential outcomes of the Polish tax audits indicated that management's assumptions applied in assessing the exposure were reasonable and supportable.</p>

Independent auditor's report continued

to the members of International Personal Finance plc

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Materiality	£5.0 million (2016: £4.6 million)	£2.5 million (2016: £2.8 million)
Basis for determining materiality	5% (2016: 5%) of forecast profit before tax	3% (2016: 3%) of net assets, capped at 50% of Group materiality
Rationale for the benchmark applied	The accumulation of profits is critical to an investor and in allowing the Group to invest in the business. We have therefore selected profit before tax as the benchmark for determining materiality.	The main operations of the Parent Company are to obtain external finance, with the main balances being the investments held in the subsidiaries and the external loan balances. We have therefore selected net assets as the benchmark for determining materiality.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.25 million (2016: £0.1 million) for the Group and £0.1 million (2016: £0.05 million) for the Parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The increase to our reporting threshold is due to a Deloitte methodology change from 2% to 5% of materiality. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at five locations, which were subject to a full audit, and one location which involved the testing of specified balances. The locations were based across Central Europe with the exception of Mexico. Together with the Group functions in the UK, which were also subject to a full audit, these seven locations represent the principal business units and account for 96% (2016: 96%) of the Group's net assets, 95% (2016: 99%) of the Group's revenue, 99% (2016: 96%) of the Group's profit before tax and 95% (2016: 64%) of the losses before tax generated by components.

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the seven locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £2.0 million to £2.9 million (2016: £0.2 million to £2.8 million).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor visit each of the locations where the group audit scope was focused at least once every three years. In years when we do not visit a significant component we will include the component audit partner and team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work. In the current year the Senior Statutory Auditor visited Poland.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Chairman's Statement, the Chief Executive Officer's Review, the Strategic Report, Principal Risks and Uncertainties, the Directors' Report, the Corporate Governance Report, the Audit and Risk Committee Report and the Directors' Remuneration Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

Other matters

Auditor tenure

Following the recommendation of the Board, we were appointed by the members of International Personal Finance on 11 May 2011 to audit the Financial Statements for the year ending 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is seven years, covering the years ending 31 December 2011 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Peter Birch

FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom

1 March 2018

Consolidated income statement

for the year ended 31 December

Group	Notes	2017 £M	2016 £M
Revenue	1	825.8	756.8
Impairment	1	(201.1)	(184.9)
Revenue less impairment		624.7	571.9
Finance costs	2	(55.2)	(46.8)
Other operating costs		(135.2)	(129.1)
Administrative expenses		(328.7)	(300.0)
Total costs		(519.1)	(475.9)
Profit before taxation – continuing operations	1	105.6	96.0
Tax expense – UK		(0.7)	(3.1)
Tax expense – overseas		(29.9)	(21.7)
Total pre-exceptional tax expense	5	(30.6)	(24.8)
Profit after pre-exceptional taxation – continuing operations		75.0	71.2
Exceptional tax expense	5	(30.0)	–
Profit after taxation – continuing operations		45.0	71.2
Loss after taxation – discontinued operations	10	(8.4)	(4.3)
Profit after taxation attributable to owners of the Company		36.6	66.9

Group	Notes	2017 pence	2016 pence
Earnings per share – continuing operations			
Basic	6	20.2	32.2
Diluted	6	19.5	31.3

Group	Notes	2017 pence	2016 pence
Earnings per share – including discontinued operations			
Basic	6	16.5	30.2
Diluted	6	15.8	29.4

See note 6 for further information on Earnings per share.

Statements of comprehensive income

for the year ended 31 December

	Notes	Group		Company	
		2017 £M	2016 £M	2017 £M	2016 £M
Profit/(loss) after taxation attributable to owners of the Company		36.6	66.9	(21.5)	(17.2)
Other comprehensive income/(expense)					
<i>Items that may subsequently be reclassified to income statement</i>					
Exchange gains on foreign currency translations		51.3	65.1	–	–
Net fair value (losses)/gains – cash flow hedges		(2.5)	1.5	(1.5)	0.7
Tax credit/(charge) on items that may be reclassified	5	0.2	(0.1)	0.1	(0.1)
<i>Items that will not subsequently be reclassified to income statement</i>					
Actuarial gains/(losses) on retirement benefit obligation	25	10.3	(10.0)	10.3	(10.0)
Tax (charge)/credit on items that will not be reclassified	5	(1.9)	1.9	(1.9)	1.9
Other comprehensive income/(expense) net of taxation		57.4	58.4	7.0	(7.5)
Total comprehensive income/(expense) for the year attributable to owners of the Company		94.0	125.3	(14.5)	(24.7)

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.

Balance sheets

as at 31 December

	Notes	Group		Company	
		2017 £M	2016 £M	2017 £M	2016 £M
Assets					
<i>Non-current assets</i>					
Goodwill	11	24.4	23.3	-	-
Intangible assets	12	33.1	32.6	-	-
Investment in subsidiaries	13	-	-	725.5	699.3
Property, plant and equipment	14	23.2	23.4	-	0.1
Deferred tax assets	15	103.1	112.0	0.1	2.0
Non-current tax assets		37.0	-	-	-
Retirement benefit asset	25	2.1	-	2.1	-
		222.9	191.3	727.7	701.4
<i>Current assets</i>					
Amounts receivable from customers:					
- due within one year		866.9	808.3	-	-
- due in more than one year		190.0	131.6	-	-
	16	1,056.9	939.9	-	-
Derivative financial instruments	22	10.4	15.4	3.5	3.3
Cash and cash equivalents	17	27.4	43.4	-	3.9
Other receivables	18	19.3	20.8	695.5	627.4
Current tax assets		5.7	3.1	-	0.1
		1,119.7	1,022.6	699.0	634.7
Total assets		1,342.6	1,213.9	1,426.7	1,336.1
Liabilities					
<i>Current liabilities</i>					
Borrowings	20	(79.6)	(22.4)	(67.5)	-
Derivative financial instruments	22	(4.8)	(4.7)	(0.1)	(0.3)
Trade and other payables	19	(145.7)	(123.2)	(343.5)	(252.0)
Current tax liabilities		(7.4)	(16.5)	-	-
		(237.5)	(166.8)	(411.1)	(252.3)
<i>Non-current liabilities</i>					
Retirement benefit obligation	25	-	(9.1)	-	(9.1)
Deferred tax liabilities	15	(10.1)	(8.1)	-	(0.1)
Borrowings	20	(598.1)	(600.4)	(508.5)	(526.4)
		(608.2)	(617.6)	(508.5)	(535.6)
Total liabilities		(845.7)	(784.4)	(919.6)	(787.9)
Net assets		496.9	429.5	507.1	548.2
Equity attributable to owners of the Company					
Called-up share capital	27	23.4	23.4	23.4	23.4
Other reserve		(22.5)	(22.5)	226.3	226.3
Foreign exchange reserve		60.0	8.7	-	-
Hedging reserve		(1.2)	1.1	(0.8)	0.6
Own shares		(47.6)	(50.8)	(47.6)	(50.8)
Capital redemption reserve		2.3	2.3	2.3	2.3
Retained earnings		482.5	467.3	303.5	346.4
Total equity		496.9	429.5	507.1	548.2

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.

The loss after taxation of the Parent Company for the period was £21.5 million (2016: loss of £17.2 million).

The Financial Statements of International Personal Finance plc, registration number 6018973 comprising the consolidated income statement, statements of comprehensive income, balance sheets, statements of changes in equity, cash flow statements, accounting policies and notes 1 to 31 were approved by the Board on 1 March 2018 and were signed on its behalf by:



Gerard Ryan
Chief Executive Officer



Justin Lockwood
Chief Financial Officer

Statements of changes in equity

Group – Attributable to owners of the Company	Notes	Called-up share capital £M	Other reserve £M	Foreign exchange reserve £M	Hedging reserve £M	Own shares £M	Capital redemption reserve £M	Retained earnings £M	Total equity £M
At 1 January 2016		23.4	(22.5)	(56.4)	(0.3)	(58.9)	2.3	439.6	327.2
<i>Comprehensive income</i>									
Profit after taxation for the year		–	–	–	–	–	–	66.9	66.9
<i>Other comprehensive income/(expense)</i>									
Exchange gains on foreign currency translation		–	–	65.1	–	–	–	–	65.1
Net fair value gains – cash flow hedges		–	–	–	1.5	–	–	–	1.5
Actuarial loss on retirement benefit obligation	25	–	–	–	–	–	–	(10.0)	(10.0)
Tax (charge)/credit on other comprehensive income	5	–	–	–	(0.1)	–	–	1.9	1.8
Total other comprehensive income/(expense)		–	–	65.1	1.4	–	–	(8.1)	58.4
Total comprehensive income for the year		–	–	65.1	1.4	–	–	58.8	125.3
<i>Transactions with owners</i>									
Share-based payment adjustment to reserves		–	–	–	–	–	–	4.4	4.4
Shares granted from treasury and employee trust		–	–	–	–	8.1	–	(8.1)	–
Dividends paid to Company shareholders	7	–	–	–	–	–	–	(27.4)	(27.4)
At 31 December 2016		23.4	(22.5)	8.7	1.1	(50.8)	2.3	467.3	429.5
At 1 January 2017		23.4	(22.5)	8.7	1.1	(50.8)	2.3	467.3	429.5
<i>Comprehensive income</i>									
Profit after taxation for the year		–	–	–	–	–	–	36.6	36.6
<i>Other comprehensive income/(expense)</i>									
Exchange gains on foreign currency translation		–	–	51.3	–	–	–	–	51.3
Net fair value losses – cash flow hedges		–	–	–	(2.5)	–	–	–	(2.5)
Actuarial gain on retirement benefit obligation	25	–	–	–	–	–	–	10.3	10.3
Tax credit/(charge) on other comprehensive income	5	–	–	–	0.2	–	–	(1.9)	(1.7)
Total other comprehensive income/(expense)		–	–	51.3	(2.3)	–	–	8.4	57.4
Total comprehensive income/(expense) for the year		–	–	51.3	(2.3)	–	–	45.0	94.0
<i>Transactions with owners</i>									
Share-based payment adjustment to reserves		–	–	–	–	–	–	1.0	1.0
Shares granted from treasury and employee trust		–	–	–	–	3.2	–	(3.2)	–
Dividends paid to Company shareholders	7	–	–	–	–	–	–	(27.6)	(27.6)
At 31 December 2017		23.4	(22.5)	60.0	(1.2)	(47.6)	2.3	482.5	496.9

Statements of changes in equity continued

Company – Attributable to owners of the Company	Notes	Called-up share capital £M	Other reserve £M	Hedging reserve £M	Own shares £M	Capital redemption reserve £M	Retained earnings £M	Total equity £M
At 1 January 2016		23.4	226.3	0.3	(58.9)	2.3	402.5	595.9
<i>Comprehensive income</i>								
Loss after taxation for the year		-	-	-	-	-	(17.2)	(17.2)
<i>Other comprehensive income/(expense)</i>								
Net fair value gains – cash flow hedges		-	-	0.4	-	-	0.3	0.7
Actuarial losses on retirement benefit obligation	25	-	-	-	-	-	(10.0)	(10.0)
Tax (charge)/credit on other comprehensive income		-	-	(0.1)	-	-	1.9	1.8
Total other comprehensive income/(expense)		-	-	0.3	-	-	(7.8)	(7.5)
Total comprehensive income/(expense) for the year		-	-	0.3	-	-	(25.0)	(24.7)
<i>Transactions with owners</i>								
Share-based payment adjustment to reserves		-	-	-	-	-	4.4	4.4
Shares granted from treasury and employee trust		-	-	-	8.1	-	(8.1)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	(27.4)	(27.4)
At 31 December 2016		23.4	226.3	0.6	(50.8)	2.3	346.4	548.2
At 1 January 2017		23.4	226.3	0.6	(50.8)	2.3	346.4	548.2
<i>Comprehensive income</i>								
Loss after taxation for the year		-	-	-	-	-	(21.5)	(21.5)
<i>Other comprehensive income/(expense)</i>								
Net fair value losses – cash flow hedges		-	-	(1.5)	-	-	-	(1.5)
Actuarial gains on retirement benefit obligation	25	-	-	-	-	-	10.3	10.3
Tax credit/(charge) on other comprehensive income		-	-	0.1	-	-	(1.9)	(1.8)
Total other comprehensive (expense)/income		-	-	(1.4)	-	-	8.4	7.0
Total comprehensive expense for the year		-	-	(1.4)	-	-	(13.1)	(14.5)
<i>Transactions with owners</i>								
Share-based payment adjustment to reserves		-	-	-	-	-	1.0	1.0
Shares granted from treasury and employee trust		-	-	-	3.2	-	(3.2)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	(27.6)	(27.6)
At 31 December 2017		23.4	226.3	(0.8)	(47.6)	2.3	303.5	507.1

The other reserve represents the difference between the nominal value of the shares issued when the Company became listed on 16 July 2007 and the fair value of the subsidiary companies acquired in exchange for this share capital.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company income statement.

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.

Cash flow statements

for the year ended 31 December

		Group		Company	
	Notes	2017 £M	2016 £M	2017 £M	2016 £M
<i>Cash flows from operating activities</i>					
Continuing operations					
Cash generated from/(used in) operating activities	28	143.6	136.2	9.2	(21.1)
Finance costs paid		(54.7)	(44.3)	(46.9)	(31.6)
Finance income received		-	-	39.0	27.8
Income tax paid		(94.0)	(68.4)	(1.3)	(0.5)
Discontinued operations		(2.7)	(1.7)	-	-
Net cash (used in)/generated from operating activities		(7.8)	21.8	-	(25.4)
<i>Cash flows from investing activities</i>					
Continuing operations					
Purchases of property, plant and equipment	14	(10.1)	(8.2)	-	(0.1)
Proceeds from sale of property, plant and equipment		0.7	-	-	-
Purchases of intangible assets	12	(14.9)	(15.8)	-	-
Purchases of shares in subsidiary		-	-	(25.5)	-
Discontinued operations					
Purchases of property, plant and equipment		-	(0.1)	-	-
Disposal of subsidiary, net of cash and cash equivalents		3.0	-	-	-
Net cash used in investing activities		(21.3)	(24.1)	(25.5)	(0.1)
Net cash used in operating and investing activities		(29.1)	(2.3)	(25.5)	(25.5)
<i>Cash flows from financing activities</i>					
Continuing operations					
Proceeds from borrowings		92.5	69.9	58.1	71.7
Repayment of borrowings		(53.2)	(41.7)	(8.9)	(15.0)
Dividends paid to Company shareholders	7	(27.6)	(27.4)	(27.6)	(27.4)
Net cash generated from financing activities		11.7	0.8	21.6	29.3
Net (decrease)/increase in cash and cash equivalents		(17.4)	(1.5)	(3.9)	3.8
Cash and cash equivalents at beginning of year		43.4	39.9	3.9	0.1
Exchange gains on cash and cash equivalents		1.4	5.0	-	-
Cash and cash equivalents at end of year	17	27.4	43.4	-	3.9
Cash and cash equivalents at end of year comprise:					
Cash at bank and in hand	17	27.4	43.4	-	3.9

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.

Accounting policies

General information

International Personal Finance plc (the Company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the registered office is shown within shareholder information on page 137.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic Report on page 4.

These Financial Statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are set out in accordance with the policies set out on page 104.

Basis of preparation

The Consolidated Group and Parent Company Financial Statements of International Personal Finance plc and its subsidiaries ('IPF' or the 'Group') have been prepared in accordance with European Union endorsed International Financial Reporting Standards ('IFRSs'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2017 but do not have any impact on the Group:

- Amendments to IAS 12 'Recognition of deferred tax assets for unrealised losses';
- Annual Improvements to IFRSs: 2014-2016 cycle; and
- IAS 7 (amendment) 'Disclosure initiative'.

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the Group:

- IFRS 9 'Financial instruments' (for more detail see below);
- IFRS 15 'Revenue from contracts with customers (and the related clarifications)';
- IFRS 16 'Leases' (for more detail see page 100);
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 'Transfers of investment property';
- IFRS 2 (amendment) 'Classification and Measurement of Share-based Payment Transactions'; and
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

IFRS 9 Financial Instruments

The Group will apply IFRS 9 from 1 January 2018. The Group has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 on the Group's Consolidated Financial Statements will depend on the financial instruments that the Group has during 2018 as well as on economic conditions and judgements made as at the year end. The Group has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9 (1 January 2018).

Classification and measurement

With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39. Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income (FVTOCI) and (iii) fair value through profit or loss (FVTPL). Equity instruments in the scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income.

There will be no impact on the classification and measurement of the following financial assets held by the Group: derivative financial instruments; cash and cash equivalents; other receivables and current tax assets.

There will be no change in the accounting for any financial liabilities.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date. The new impairment model will apply to the Group's financial assets that are measured at amortised costs.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for amounts receivable from customers as required or permitted for IFRS 9. The Group's preliminary calculation of the loss allowance for these assets as at 1 January 2018 is around 11 - 13% million greater compared to IAS

Determining an increase in credit risk since initial recognition

IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1) and lifetime expected credit

Accounting policies continued

losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

When determining whether the risk of default has increased significantly since initial recognition the Group considers both quantitative and qualitative information based on the Group's historical experience.

The approach to identifying significant increases in credit risk is consistent across the Group's products. In addition, as a backstop, the Group considers that a significant increase in credit risk occurs when an asset is more than 30 days past due.

Financial instruments are moved back to stage 1 once they no longer meet the criteria for a significant increase in credit risk.

Definition of default and credit impaired assets

The Group defines a financial instrument as in default, which is fully-aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- Quantitative criteria: the customer is more than 90 days past due on their contractual payments;
- Qualitative criteria: indication that there is a measurable movement in the estimated future cash flows from a group of financial assets. For example, if prospective legislative changes are considered to impact the collections performance of customers.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Group's expected credit loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

Forward-looking information

Under IFRS 9 macroeconomic overlays are required to include forward-looking information when calculating expected credit losses. The short-term nature of our lending means that the portfolio turns over quickly, and as a result, any changes in the macroeconomic environment will have very little impact on our amounts receivable from customers.

Where extreme macroeconomic scenarios are experienced, we will use management judgement to identify, quantify and apply any required approach. We have not applied any overlays in the calculation of the loss allowance at 1 January 2018.

Modelling techniques

We have calculated PD, EAD, LGD and cash flow projections based on the most recent collections performance, including management overlays where we deem that historic performance is not representative of future collections performance.

The most recent LGD performance is not deemed to be representative of future collections performance due to operational changes implemented in 2017. As such, an overlay has been applied to the LGD parameters resulting in an increase in LGDs.

Hedge accounting

On initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The Group has elected to apply the IAS 39 hedge accounting requirements.

IFRS16 Leases

IFRS16, which has not yet been endorsed by the EU, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group expects to adopt IFRS 16 for the year ending 31 December 2019. No decision has been made about whether to use any of the transitional options in IFRS 16.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected because operating leases under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as operating and financing cash flows respectively.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of £33.0 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, although some of them will qualify as low value or short-term leases upon the application of IFRS 16. The Group is in the process of assessing the impact of recognising a right-of-use asset and a related lease liability in the Group Financial Statements. It is not practicable to provide a reasonable estimate of the financial effect until this review has been completed.

Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures, 'APMs' which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

Each of the APMs, used by the Group are set out on pages 133-136 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, after restating prior year figures at a constant exchange rate. The constant exchange rate, which is an APM, retranslates the previous year measures at the average actual periodic exchange rates used in the current financial year. These measures are presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory measures in order to derive APMs where relevant. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group.

Accounting convention

The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value. The principal accounting policies, which have been applied consistently, are set out in the following paragraphs.

Going concern

The directors have, at the time of approving the Financial Statements, a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in the Financial Statements. Further detail is contained in the Financial review on page 35.

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and the entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affects its returns.

All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group companies are eliminated on consolidation.

The accounting policies of the subsidiaries are consistent with the accounting policies of the Group.

Finance costs

Finance costs comprise the interest on external borrowings which are recognised on an effective interest rate ('EIR') basis, and gains or losses on derivative contracts taken to the income statement.

Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board. This information is by business line – home credit and Digital; and by geographic region within the home credit business. In order to further simplify our financial reporting in alignment with our strategy, we have decided to consolidate all European home credit businesses into one reporting segment. Accordingly, in 2018 our segmented reporting will comprise European home credit, Mexico and IPF Digital. A business line is a component of the Group that operates within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Revenue

Revenue, which excludes value added tax and intra-Group transactions, comprises revenue earned on amounts receivable from customers. Revenue on customer receivables is calculated using an effective interest rate ('EIR'). All fees, being interest and non-interest fees are included within the EIR calculation. The EIR is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers paying early but excluding the anticipated impact of customers paying late or not paying at all.

Directly attributable issue costs are also taken into account in calculating the EIR. Interest income continues to be accrued on impaired receivables using the original EIR applied to the loan's carrying value.

Accounting policies continued

Revenue continued

Commissions in respect of insurance products intermediated by the Group are recognised when the underlying insurance goes on-risk if no further service obligations are identified. Insurance premiums payable by the customer are capitalised as part of the customer loan receivable and accounted for on an amortised cost basis. These amounts do not make up a significant part of the revenue of the Group.

The accounting for amounts receivable from customers is considered further below.

Leases

The leases entered into by the Group are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the Group.

Other operating costs

Other operating costs include agents' commission, marketing costs and foreign exchange gains and losses. All other costs are included in administrative expenses.

Share-based payments

The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the award. The corresponding credit is made to retained earnings. The cost is based on the fair value of awards granted, which is determined using both a Monte Carlo simulation and Black-Scholes option pricing model.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

In the Parent Company Financial Statements, the fair value of providing share-based payments to employees of subsidiary companies is treated as an increase in the investment in subsidiaries.

Exceptional items

The Group classifies as exceptional those significant items that are one-off in nature and do not reflect the underlying performance of the Group.

Financial instruments

Amounts receivable from customers

All customer receivables are recognised initially at the amount loaned to the customer plus directly attributable incremental issue costs. After initial recognition, customer receivables are measured subsequently at amortised cost. Amortised cost is the amount of the customer receivable at initial recognition less customer repayments, plus revenue earned calculated using the EIR, less any deduction for impairment. Customer receivables are classified as loans and receivables in accordance with IAS 39 'Financial instruments: recognition and measurement'.

In home credit customer receivables are assessed for impairment each week. Customer accounts that are in arrears are deemed to have demonstrated evidence of impairment and are subject to an impairment review. Impairment is calculated using actuarial models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage. These estimated future cash flows are discounted to a present value using the original EIR and this figure is compared with the balance sheet value.

In IPF Digital receivables are assessed for impairment on a monthly basis to reflect the repayment frequency. Evidence of default is deemed to have been demonstrated when accounts are passed to an external debt collection agency although an incurred but not reported provision is created before this based on probability of default and loss given default factors. Impairment provisions reflect the amount and timing of cash flows through loss given default factors.

Impairment charges in respect of customer receivables are charged to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand. Cash also includes those balances held by agents for operational purposes. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Derivative financial instruments

The Group uses derivative financial instruments, principally interest rate swaps, currency swaps and forward currency contracts, to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39. The majority of the Group's derivatives are cash flow hedges of highly probable forecast transactions and meet the hedge accounting requirements of IAS 39. Derivatives are recognised initially at the fair value on the date a derivative contract is entered into and are remeasured subsequently at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the income statement.

For derivatives that are designated as cash flow hedges and where the hedge accounting criteria are met, the effective portion of changes in the fair value is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

The Group discontinues hedge accounting when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are stated subsequently at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the EIR. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each end of reporting period date.

Goodwill is not amortised but is tested for impairment at least annually. Impairment is tested by comparing the carrying value of goodwill to the net present value of latest forecast cashflows from the legacy MCB business cash generating unit. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Intangible assets

Intangible assets comprise computer software and customer relationships acquired on the acquisition of MCB Finance. Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire or develop the specific software and bring it into use. Customer relationships are stated at fair value less accumulated amortisation.

Intangible assets are amortised (within administrative expenses) on a straight-line basis over their estimated useful economic lives which are generally estimated to be five years. The residual values and economic lives are reviewed by management at each balance sheet date, and any shortfall recognised as impairment.

Investments in subsidiaries

Investments in subsidiaries are stated at cost, where cost is equal to the fair value of the consideration used to acquire the asset. Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the investment carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Accounting policies continued

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repair and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable value over their useful economic lives. The following are the principal bases used:

Category	Depreciation rate	Method
Fixtures and fittings	10%	Straight-line
Equipment (including computer hardware)	20% to 33.3%	Straight-line
Motor vehicles	25%	Reducing balance

The residual value and useful economic life of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised through the income statement for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Share capital

International Personal Finance plc has only ordinary share capital. These shares, with a nominal value of 10 pence per share, are classified as equity.

Shares held in treasury and by employee trust

The net amount paid to acquire shares is held in a separate reserve and shown as a reduction in equity.

Foreign currency translation

Items included in the Financial Statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency'). The Group's financial information is presented in sterling.

Transactions that are not denominated in an entity's functional currency are recorded at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the rates of exchange ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

The income statements of the Group's subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from sterling are translated into sterling at the average exchange rate and the balance sheets are translated at the exchange rates ruling at each balance sheet date.

Upon consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Employee benefits

Defined benefit pension scheme

The charge or credit in the income statement in respect of the defined benefit pension scheme comprises the actuarially assessed current service cost of working employees together with the interest charge on pension liabilities offset by the expected return on pension scheme assets. As there are no working employees that are members of the defined benefit pension scheme, there are no current service costs. All charges or credits are allocated to administrative expenses.

The asset or obligation recognised in the balance sheet in respect of the defined benefit pension scheme is the fair value of the scheme's assets less the present value of the defined benefit obligation at the balance sheet date.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income.

The Parent Company share of the defined benefit retirement obligation is based on the proportion of total Group contributions made by the Parent Company.

Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

Accounting policies continued

Revenue recognition

The judgement used in respect of revenue recognition is the methodology used to calculate the EIR. In order to determine the EIR applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based in historical data and are reviewed regularly. Based on a 1% variation in the EIR, it is estimated that the amounts receivable from customers would be higher/lower by £3.1 million (2016: £3.1 million). This sensitivity is based on historic fluctuations in EIRs.

Amounts receivable from customers

The Group reviews its portfolio of customer loans and receivables for impairment on a weekly or monthly basis. The Group makes judgements to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows.

In home credit, for the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable predictor of future payment performance. The level of impairment is calculated using actuarial models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage of each product.

In IPF Digital, the default trigger occurs when customers are passed to collections, which averages at around 60 days past due, although an incurred but not recorded provision is created before this based on probability of default and loss given default factors that are based on historical performance.

In home credit, the impairment models are monitored regularly to test their continued capability to predict the timing and quantum of customer repayments in the context of the current economic environment and recent customer payment performance. The models used typically have a strong predictive capability reflecting the relatively stable nature of the business and therefore the actual performance does not usually vary significantly from the estimated performance. The models are updated periodically if they cease to have a strong predictive capability. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating the future cash flows, an adjustment to the amounts receivable from customers may be required. To the extent the estimated cash flows differ by +/-2%, it is estimated that amounts receivable from home credit customers would be £17.3 million higher/lower (2016: £16.5 million higher/lower). This level of estimated impact is based on historic fluctuations in performance compared to the models and is subject to impairment overlay provisions.

In IPF Digital, probability of default and loss given default parameters are updated on a regular basis using recent customer repayment information, which is considered to be a good indicator of future performance. In the event that loss rates could be different from these assumptions by +/- 10%, it is estimated that the amounts receivable from IPF Digital customers would be £1.2 million higher/lower (2016: £0.6 million higher/lower). The levels of estimated impacts are based on typical customer loss rate fluctuations.

IAS 39 requires that all of the cash flows directly associated with financial instruments held at amortised cost must be recognised in the income statement using the EIR method. When this approach is applied to a customer loan portfolio, judgements must be made to estimate the average life of that portfolio. These judgements are applied, taking into account factors including the terms of the particular products and historical repayment data. These estimates are considered and updated as required in each reporting period to reflect the customer loan portfolio's expected performance.

Tax

Judgement must be exercised in the calculation of the Group's tax provision, in particular with regard to the existence and extent of tax risks. This exercise of judgement with regards to the ongoing Polish tax audits which are disclosed on page 35 could have a significant effect on the Financial Statements, as there are significant uncertainties in relation to the amount and timing of associated cash flows.

In respect of deferred tax assets, which arise largely from timing differences between the accounting and tax treatments of revenue and impairment transactions, judgements must be made regarding the extent to which the timing differences will reverse and a tax deduction will be obtained in future periods.

Notes to the financial statements

1. Segment analysis

Geographical segments

Group	Revenue		Impairment		Profit before taxation	
	2017 £M	2016 £M	2017 £M	2016 £M	2017 £M	2016 £M
Home credit						
Northern Europe	327.0	330.6	74.1	76.2	59.8	75.6
Southern Europe	177.7	170.8	17.0	35.2	54.5	40.3
Mexico	217.0	186.5	75.6	68.0	14.7	11.7
Slovakia and Lithuania	-	10.8	(8.5)	(12.0)	3.2	(7.4)
	721.7	698.7	158.2	167.4	132.2	120.2
Digital	104.1	58.1	42.9	17.5	(11.7)	(9.3)
UK costs*	-	-	-	-	(14.9)	(14.9)
Total - continuing operations	825.8	756.8	201.1	184.9	105.6	96.0
Discontinued operations	3.7	6.6	2.6	2.6	(7.9)	(3.4)
Total	829.5	763.4	203.7	187.5	97.7	92.6

* Although UK costs are not classified as a separate segment in accordance with IFRS 8 'Operating segments', they are shown separately above in order to provide a reconciliation to profit before taxation.

Group	Segment assets		Segment liabilities	
	2017 £M	2016 £M	2017 £M	2016 £M
Home credit				
Northern Europe	550.0	494.6	213.0	196.8
Southern Europe	272.3	255.0	119.0	138.9
Mexico	220.3	223.1	145.2	170.0
Slovakia and Lithuania	0.9	9.6	7.7	37.8
	1,043.5	982.3	484.9	543.5
Digital	231.9	148.7	157.0	120.7
UK	67.2	72.7	203.8	111.6
Total - continuing operations	1,342.6	1,203.7	845.7	775.8
Discontinued operations	-	10.2	-	8.6
Total	1,342.6	1,213.9	845.7	784.4

Group	Capital expenditure		Depreciation	
	2017 £M	2016 £M	2017 £M	2016 £M
Home credit				
Northern Europe	3.9	2.1	3.2	2.4
Southern Europe	2.8	1.5	1.9	1.7
Mexico	2.7	2.9	2.4	1.8
Slovakia and Lithuania	-	-	-	0.4
	9.4	6.5	7.5	6.3
Digital	0.6	0.4	0.4	0.1
UK	0.1	1.3	2.4	3.5
Total - continuing operations	10.1	8.2	10.3	9.9
Discontinued operations	-	0.1	-	0.2
Total	10.1	8.3	10.3	10.1

Notes to the financial statements continued

1. Segment analysis continued

Group	Expenditure on intangible assets		Amortisation	
	2017 £M	2016 £M	2017 £M	2016 £M
Home credit	-	-	-	-
Northern Europe	-	-	-	-
Southern Europe	-	-	-	-
Mexico	-	-	-	-
Slovakia and Lithuania	-	-	-	-
Digital	5.9	3.6	2.9	2.2
UK	9.0	12.2	8.5	6.8
Total – continuing operations	14.9	15.8	11.4	9.0
Discontinued operations	-	-	-	-
Total	14.9	15.8	11.4	9.0

All revenue comprises amounts earned on amounts receivable from customers.

The Group is domiciled in the UK and no revenue is generated in the UK. Total revenue from external customers is £829.5 million (2016: £763.4 million) and the breakdown by geographical area is disclosed above.

As set out in the accounting policy note, the receivables portfolio is valued based on expected cash flows discounted at the effective interest rate. The impairment credit in Slovakia / Lithuania is principally driven by impact of unwinding the discount on the receivables portfolio via the effective interest rate.

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is £27.7 million (2016: £30.5 million), and the total of non-current assets located in other countries is £92.1 million (2016: £48.8 million).

There is no single external customer from which significant revenue is generated.

The segments shown above are the segments for which management information is presented to the Board, which is deemed to be the Group's chief operating decision maker.

2. Finance costs

Group	2017 £M	2016 £M
Interest payable on borrowings	55.2	46.8

3. Profit before taxation

Profit before taxation is stated after charging:

Group	2017 £M	2016 £M
Depreciation of property, plant and equipment (note 14)	10.3	9.9
Loss on disposal of property, plant and equipment	-	0.8
Impairment of intangible assets (note 12)	3.3	0.7
Amortisation of intangible assets (note 12)	11.4	9.0
Operating lease rentals:		
– property	12.9	13.8
– equipment	6.9	8.1
Employee costs (note 9)	193.0	175.5

4. Auditor's remuneration

During the year, the Group incurred the following costs in respect of services provided by the Group auditor:

Group	2017 £M	2016 £M
Fees payable to the Company auditor for the audit of the Parent Company and Consolidated Financial Statements	0.1	0.1
Fees payable to the Company auditor and its associates for other services:		
– audit of Company's subsidiaries pursuant to legislation	0.7	0.5
– other assurance services	0.1	0.1

Audit of company's subsidiaries pursuant to legislation includes accounting advice on the implementation of IFRS 9.

Further details on auditor remuneration can be found in the Audit and Risk Committee Report on page 57.

5. Tax expense

Group	2017 £M	2016 £M
Current tax expense/(income)		
– current year	47.0	49.7
– prior year	–	(0.4)
	47.0	49.3
Deferred tax (income)/expense (note 15)		
– current year	(18.9)	(22.8)
– prior year	2.5	(1.7)
	(16.4)	(24.5)
Pre-exceptional tax expense	30.6	24.8
Exceptional tax charge	30.0	–
Tax expense	60.6	24.8

The exceptional tax charge of £30.0 million (2016: £nil) relates to the write off of a deferred tax asset due to a change on Polish tax legislation effective from 1 January 2018. For more information see financial review on page 35.

Further information regarding the deferred tax (income)/expense is shown in note 15, and primarily relates to timing differences in respect of revenue and impairment.

Group	2017 £M	2016 £M
<i>Tax credit/(charge) on other comprehensive income</i>		
Deferred tax credit/(charge) on net fair value losses/gains – cash flow hedges	0.2	(0.1)
Deferred tax (charge)/credit on actuarial gains/losses on retirement benefit asset/obligation	(1.9)	1.9
	(1.7)	1.8

The rate of tax expense on the profit before taxation for the year ended 31 December 2017 is higher than (2016: higher than) the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained as follows:

Group	2017 £M	2016 £M
Profit before taxation	105.6	96.0
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	20.3	19.2
Effects of:		
– adjustment in respect of prior years	2.5	(2.0)
– adjustment in respect of foreign tax rates	2.1	2.8
– expenses not deductible for tax purposes	5.6	3.9
– change in unrecognised deferred tax assets	0.1	0.5
– impact of rate change on deferred tax asset/liability	–	0.4
Pre-exceptional tax expense	30.6	24.8
Exceptional tax charge	30.0	–
Total tax expense	60.6	24.8

The Group is currently subject to a tax audit with respect to Provident Polska for the years 2008-2011. Audits of 2010 and 2011 are ongoing, whilst for 2008 and 2009, decisions were received in January 2017 and have been appealed. Further details regarding these decisions are set out in the Financial Review on page 35. The Group is also subject to audits in Mexico (regarding 2015) and Slovakia (regarding 2014-2015), all of which are still at the information gathering stage.

In late 2017 the European Commission opened a state aid investigation into the Group Financing Exemption contained in the UK controlled foreign currency rules, which was introduced in 2013. The UK authorities do not accept that the rules constitute state aid. In common with other UK-based international companies whose arrangements are in line with current controlled foreign company rules, the Group may be affected by the outcome of this investigation. The Group is monitoring developments.

Notes to the financial statements continued

6. Earnings per share

Basic earnings per share ('EPS') from continuing operations is calculated by dividing the earnings attributable to shareholders of £45.0 million (2016: £71.2 million) by the weighted average number of shares in issue during the period of 222.4 million (2016: 221.2 million) which has been adjusted to exclude the weighted average number of shares held in treasury and by the employee trust.

Adjusted earnings per share ('EPS') from continuing operations excluding the exceptional tax charge is calculated by dividing the earnings attributable to shareholders of £75.0 million (2016: £71.2 million) by the weighted average number of shares in issue during the period of 222.4 million (2016: 221.2 million) which has been adjusted to exclude the weighted average number of shares held in treasury and by the employee trust.

Basic earnings per share ('EPS') including discontinued operations is calculated by dividing the earnings attributable to shareholders of £36.6 million (2016: £66.9 million) by the weighted average number of shares in issue during the period of 222.4 million (2016: 221.2 million) which has been adjusted to exclude the weighted average number of shares held in treasury and by the employee trust.

For diluted EPS, the weighted average number of IPF plc ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary share options relating to employees of the Group.

The weighted average number of shares used in the basic and diluted EPS calculations can be reconciled as follows:

Group	2017 £M	2016 £M
Used in basic EPS calculation	222.4	221.2
Dilutive effect of awards	9.0	6.3
Used in diluted EPS calculation	231.4	227.5

Basic and diluted EPS are presented below:

Group	2017 pence	2016 pence
Basic EPS – continuing operations	20.2	32.2
Dilutive effect of awards	(0.7)	(0.9)
Diluted EPS – continuing operations	19.5	31.3

Group	2017 pence	2016 pence
Basic EPS – continuing operations adjusted for exceptional tax	33.7	32.2
Dilutive effect of awards	(1.3)	(0.9)
Diluted EPS – continuing operations adjusted for exceptional tax	32.4	31.3

Group	2017 pence	2016 pence
Basic EPS – including discontinued operations	16.5	30.2
Dilutive effect of awards	(0.7)	(0.8)
Diluted EPS – including discontinued operations	15.8	29.4

7. Dividends

Group and Company	2017 £M	2016 £M
Interim dividend of 4.6 pence per share (2016: interim dividend of 4.6 pence per share)	10.2	10.2
Final 2016 dividend of 7.8 pence per share (2016: final 2015 dividend of 7.8 pence per share)	17.4	17.2
	27.6	27.4

The directors are recommending a final dividend in respect of the financial year ended 31 December 2017 of 7.8 pence per share which will amount to a full year dividend payment of £27.6 million. If approved by the shareholders at the annual general meeting ('AGM'), this dividend will be paid on 11 May 2018 to shareholders who are on the register of members at 13 April 2018. This dividend is not reflected as a liability in the balance sheet as at 31 December 2017 as it is subject to shareholder approval.

8. Remuneration of key management personnel

The key management personnel (as defined by IAS 24 'Related party disclosures') of the Group are deemed to be the executive and non-executive directors of IPF and the members of the Senior Management Group.

	2017 £M	2016 £M
Short-term employee benefits	4.4	4.4
Post-employment benefits	0.1	0.1
Share-based payments	0.4	1.1
Total	4.9	5.6

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year.

Post-employment benefits represent the sum of (i) Group contributions into personal pension arrangements; and (ii) contributions into the Group's stakeholder scheme.

For gains arising on executive directors' share options see page 76.

Disclosures in respect of the Group's directors are included in the Directors' Remuneration Report.

9. Employee information

The average full-time equivalent of people employed by the Group (including directors) was as follows:

Group	2017 Number	2016 Number
Full-time*	7,225	7,434
Part-time**	2,266	2,565
	9,491	9,999

* Includes 718 agents in Hungary and Romania (2016: includes 694 agents in Hungary and Romania).

** Includes 1,954 agents in Hungary and Romania (2016: includes 2,174 agents in Hungary and Romania).

Agents are self-employed other than in Hungary and Romania where they are required by legislation to be employed.

The average number of employees by category was as follows:

Group	2017 Number	2016 Number
Operations	5,680	6,089
Administration	887	969
Head office and security	2,924	2,941
	9,491	9,999

Group employment costs for all employees (including directors) were as follows:

Group	2017 £M	2016 £M
Gross wages and salaries	162.0	144.9
Social security costs	30.4	26.3
Pension charge – defined contribution schemes (note 25)	0.8	0.8
Share-based payment charge (note 26)	(0.2)	3.5
Total	193.0	175.5

Notes to the financial statements continued

10. Discontinued operations

On 28 June 2017, we announced completion of the sale of the home credit business in Bulgaria in order to focus our resources on our larger home credit and rapidly growing digital businesses. Losses of £8.4 million are included in the income statement in respect of Bulgaria for the year ended 31 December 2017. These costs can be analysed as follows:

Group	2017 £M	2016 £M
Revenue	3.7	6.6
Impairment	(2.6)	(2.6)
Revenue less impairment	1.1	4.0
Finance costs	(0.2)	(0.3)
Other operating costs	(0.7)	(1.6)
Administrative expenses	(2.9)	(5.5)
Trading losses	(2.7)	(3.4)
Write-off of assets	(5.2)	–
Loss before taxation	(7.9)	(3.4)
Taxation charge	(0.5)	(0.9)
Loss – discontinued operations	(8.4)	(4.3)

11. Goodwill

Group	2017 £M	2016 £M
<i>Net book value</i>		
At 1 January	23.3	20.1
Exchange adjustments	1.1	3.2
At 31 December	24.4	23.3

Goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. We adopt discount rates which reflect the time value of money and the risks specific to the legacy MCB business. The cash flow forecasts are based on the most recent financial budgets approved by the Group Board for the next three years. The rate used to discount the forecast cash flows is 10% (2016: 10%). No reasonably foreseeable reduction in the assumptions would give rise to impairment, and therefore no further sensitivity analysis has been presented.

12. Intangible assets

Group	2017 £M	2016 £M
<i>Net book value</i>		
At 1 January	32.6	25.6
Additions	14.9	15.8
Impairment	(3.3)	(0.7)
Amortisation	(11.4)	(9.0)
Exchange adjustments	0.5	0.9
Disposal of subsidiary	(0.2)	–
At 31 December	33.1	32.6
Analysed as:		
– cost	85.5	73.3
– amortisation	(52.4)	(40.7)
At 31 December	33.1	32.6

Intangible assets comprise computer software (2017: £31.5 million; 2016: £30.0 million) and customer relationships acquired on the acquisition of MCB Finance (2017: £1.6 million; 2016: £2.6 million).

The Company has no intangible assets.

13. Investment in subsidiaries

Company	2017 £M	2016 £M
Investment in subsidiaries	686.8	686.8
Purchase of shares in subsidiary	25.5	–
Share-based payment adjustment	13.2	12.5
	725.5	699.3

IPF plc acquired the international businesses of the Provident Financial plc Group on 16 July 2007 by issuing one IPF plc share to the shareholders of Provident Financial plc for each Provident Financial plc share held by them. The fair value of the consideration issued in exchange for the investment in these international businesses was £663.6 million and this amount was therefore capitalised as a cost of investment. A further £13.2 million (2016: £12.5 million) has been added to the cost of investment representing the fair value of the share-based payment awards over IPF plc shares made to employees of subsidiary companies of IPF plc. The corresponding credit has been taken to reserves.

On 6 February 2015 the Group acquired 100% of the issued share capital of MCB Finance Group plc ('MCB'), a profitable digital consumer finance provider established in 2006, for a cash consideration of £23.2 million.

During the year, as a result of the Group net asset position and the market capitalisation of the Company being lower than the carrying value of the investment in subsidiaries, we carried out a review of the recoverable amount of the carrying value of the investment. This review confirmed that no impairment of the investment is required.

The subsidiary companies of IPF plc, which are 100% owned by the Group, are detailed below:

Subsidiary company	Country of incorporation and operation	Principal activity
International Personal Finance Digital Spain S.A.U.	Spain	Digital credit
International Personal Finance Investments Limited	United Kingdom	Holding company
IPF Česká republika s.r.o.	Czech Republic	Non-trading
IPF Development (2003) Limited	United Kingdom	Provision of services
IPF Digital AS	Estonia	Provision of services
IPF Digital Australia Pty Limited	Australia	Digital credit
IPF Digital Estonia OÜ	Estonia	Digital credit
IPF Digital Finland Oy	Finland	Digital credit
IPF Digital Latvia, SIA	Latvia	Digital credit
IPF Digital Lietuva, UAB	Lithuania	Digital credit
IPF Digital Mexico S.A de C.V.	Mexico	Digital credit
IPF Financial Services Limited	United Kingdom	Provision of services
IPF Financing Limited	United Kingdom	Provision of services
IPF Guernsey (2) Limited	Guernsey	Dormant
IPF Credit Limited	Guernsey	Dormant
IPF Holdings Limited	United Kingdom	Holding company
IPF International Limited	United Kingdom	Provision of services
IPF Investments Polska sp. z o.o.	Poland	Provision of services
IPF Management	Ireland	Provision of services
IPF Polska sp. z o.o.	Poland	Digital credit
IPF Slovensko s.r.o.	Slovakia	In liquidation
MCB Finance Group Limited	United Kingdom	Holding company
MCB Treasury AB	Sweden	Former intra-group financing company
PF (Netherlands) B.V.	Netherlands	Provision of services
Provident Financial Romania IFN S.A.	Romania	Home credit
Provident Financial s.r.o.	Czech Republic	Home credit
Provident Financial s.r.o.	Slovakia	In liquidation
Provident Financial Zrt.	Hungary	Home credit
Provident Mexico S.A. de C.V.	Mexico	Home credit
Provident Personal Loans (Thailand) Limited	Thailand	Non-trading
Provident Polska S.A.	Poland	Home credit
Provident Polska sp. z o.o.	Poland	Non-trading
Provident Servicios de Agencia S.A. de C.V.	Mexico	Provision of services
Provident Servicios S.A. de C.V.	Mexico	Provision of services
Sving Finance, UAB	Lithuania	Digital credit

Notes to the financial statements continued

13. Investment in subsidiaries continued

The trading operation of our Lithuanian home credit business was carried out through a branch of Provident Polska S.A. and consequently there is no separate subsidiary company for these operations.

All UK subsidiaries are registered at the same registered office as the Company, and this address is shown within Shareholder information on page 137.

14. Property, plant and equipment

Group	Computer equipment £M	Fixtures and fittings £M	Motor vehicles £M	Total £M
<i>Cost</i>				
At 1 January 2017	70.4	22.7	4.3	97.4
Exchange adjustments	2.2	0.6	0.2	3.0
Additions	5.4	3.5	1.2	10.1
Disposals	(1.9)	(1.7)	(1.6)	(5.2)
Disposal of a subsidiary	-	(0.3)	-	(0.3)
At 31 December 2017	76.1	24.8	4.1	105.0
<i>Depreciation</i>				
At 1 January 2017	(55.9)	(16.2)	(1.9)	(74.0)
Exchange adjustments	(1.5)	(0.5)	(0.1)	(2.1)
Charge to the income statement	(7.2)	(2.5)	(0.6)	(10.3)
Disposals	1.8	1.7	1.0	4.5
Disposal of a subsidiary	-	0.1	-	0.1
At 31 December 2017	(62.8)	(17.4)	(1.6)	(81.8)
Net book value at 31 December 2017	13.3	7.4	2.5	23.2
Net book value at 31 December 2016	14.5	6.5	2.4	23.4

The Company has property, plant and equipment with a cost of £1.0 million (2016: £1.0 million); depreciation of £1.0 million (2016: £0.9 million); and a net book value of £nil (2016: £0.1 million). All of these assets are computer equipment.

15. Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method using the appropriate tax rate for the jurisdiction in which the temporary difference arises. The movement in the deferred tax balance during the year can be analysed as follows:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
At 1 January	103.9	73.6	1.9	0.9
Exchange adjustments	5.0	4.8	-	-
Tax (charge)/credit to the income statement	(14.2)	23.6	(0.1)	(0.8)
Tax (charge)/credit on other comprehensive income	(1.7)	1.9	(1.7)	1.8
At 31 December	93.0	103.9	0.1	1.9

The Finance Act 2016, which was substantively enacted on 6 September 2016, included an amending provision to reduce the UK corporation tax rate to 17% with effect from 1 April 2020. The impact of this rate change has been applied to the calculation of deferred tax assets and liabilities at 31 December 2017.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

An analysis of the deferred tax assets and liabilities is set out below:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Deferred tax assets	103.1	112.0	0.1	2.0
Deferred tax liabilities	(10.1)	(8.1)	-	(0.1)
At 31 December	93.0	103.9	0.1	1.9

15. Deferred tax continued

	Group				Company		
	Losses £M	Revenue and impairment differences £M	Other temporary differences £M	Total £M	Retirement benefit obligations £M	Other temporary differences £M	Total £M
At 1 January 2016	9.3	60.8	3.5	73.6	–	0.9	0.9
Exchange adjustments	1.5	3.6	(0.3)	4.8	–	–	–
Tax (charge)/ credit to the income statement	(2.3)	21.2	5.6	24.5	(0.2)	(0.6)	(0.8)
Tax charge relating to discontinued operation	(0.9)	–	–	(0.9)	–	–	–
Tax credit/(charge) on items taken directly to equity	–	–	1.9	1.9	1.9	(0.1)	1.8
At 31 December 2016	7.6	85.6	10.7	103.9	1.7	0.2	1.9
At 1 January 2017	7.6	85.6	10.7	103.9	1.7	0.2	1.9
Exchange adjustments	0.2	4.8	–	5.0	–	–	–
Pre-exceptional tax (charge)/credit to the income statement	(0.7)	16.8	0.3	16.4	(0.2)	0.1	(0.1)
Exceptional tax charge	–	(30.0)	–	(30.0)	–	–	–
Tax charge relating to discontinued operation	(0.5)	–	(0.1)	(0.6)	–	–	–
Tax (charge)/credit on items taken directly to equity	–	–	(1.7)	(1.7)	(1.9)	0.2	(1.7)
At 31 December 2017	6.6	77.2	9.2	93.0	(0.4)	0.5	0.1

Deferred tax assets have been recognised in respect of tax losses and other temporary timing differences (principally relating to recognition of revenue and impairment) to the extent that it is probable that these assets will be utilised against future taxable profits.

At 31 December 2017, the Group has unused tax losses of £47.6 million (2016: £76.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £28.9 million (2016: £45.7 million) of these losses. No deferred tax has been recognised in respect of the remaining £18.7 million (2016: £30.3 million) as it is not considered probable that there will be future taxable profits available against which these losses can be offset. None of the unrecognised losses are subject to an expiry date.

At 31 December 2017, there is £nil (2016: £nil) amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised.

16. Amounts receivable from customers

Group	2017 £M	2016 £M
Amounts receivable from customers comprise:		
– amounts due within one year	866.9	808.3
– amounts due in more than one year	190.0	131.6
	1,056.9	939.9

All lending is in the local currency of the country in which the loan is issued. The currency profile of amounts receivable from customers is as follows:

Group	2017 £M	2016 £M
Polish zloty	393.3	345.7
Czech crown	83.3	84.2
Euro	148.4	96.3
Hungarian forint	162.7	139.6
Mexican peso	165.1	161.2
Romanian leu	93.4	98.6
Bulgarian lev	–	7.8
Australian dollar	10.7	6.5
	1,056.9	939.9

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the average EIR of 99% (2016: 105%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 9.1 months (2016: 7.8 months).

No collateral is held in respect of any customer receivables. Home credit does not use an impairment provision account for recording impairment losses and, therefore, no analysis of gross customer receivables less provision for impairment is presented. Digital holds an impaired but not reported provision for receivables which have not yet been passed to a third-party collection agency.

Notes to the financial statements continued

16. Amounts receivable from customers continued

Revenue recognised on amounts receivable from customers which have been impaired was £429.6 million (2016: £437.0 million).

Management monitor credit quality using two key metrics: impairment as a percentage of revenue and gross cash loss ('GCL') development. Commentary on impairment as a percentage of revenue is set out in the operational review at both Group and segment level. GCL represents the expected total value of contractual cash flows that will not be collected and will ultimately be written off for any loan or group of loans. Until collections on any group of receivables are complete, the GCL forecast is a composite of actual and expected cash flows. This represents a leading edge measure of credit quality with forecasts based on the actual performance of previous lending. At 31 December 2017 our preliminary GCL forecast for home credit for 2018 was 14.5% of total amount payable; the outturn for 2016 lending as at 31 December 2017 was 15.2% of total amount payable. At 31 December 2017 our preliminary loss rate forecast for 2018 for digital established markets was 2.7% and for digital new markets was 11.0% of receivables (2016: digital established markets was 6% and digital new markets was 13% of receivables).

The Company has no amounts receivable from customers.

17. Cash and cash equivalents

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Cash at bank and in hand	27.4	43.4	-	3.9

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Sterling	-	3.4	-	3.4
Polish zloty	9.9	10.3	-	-
Czech crown	3.3	3.9	-	0.2
Euro	6.1	13.2	-	0.1
Hungarian forint	2.3	2.8	-	0.2
Mexican peso	2.8	5.6	-	-
Romanian leu	2.5	2.2	-	-
Bulgarian lev	-	1.3	-	-
Australian dollar	0.5	0.7	-	-
Total	27.4	43.4	-	3.9

18. Other receivables

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Other receivables	10.3	9.9	0.5	-
Prepayments	9.0	10.9	1.5	0.9
Amounts due from Group undertakings	-	-	693.5	626.5
Total	19.3	20.8	695.5	627.4

No balance within other receivables is impaired.

Amounts due from Group undertakings are unsecured and due for repayment in less than one year.

19. Trade and other payables

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Trade payables	14.6	11.4	0.4	0.1
Other payables including taxation and social security	41.3	42.6	0.4	0.6
Accruals	89.8	69.2	24.7	22.1
Amounts due to Group undertakings	-	-	318.0	229.2
Total	145.7	123.2	343.5	252.0

Amounts due to Group undertakings are unsecured and due for repayment in less than one year.

20. Borrowing facilities and borrowings

The Group and Company's borrowings are as follows:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
<i>Borrowings</i>				
Bank borrowings	87.7	57.8	28.8	–
Bonds	590.0	565.0	547.2	526.4
Total	677.7	622.8	576.0	526.4

The Group's external bonds comprise the following:

Bond	Coupon %	Maturity date	2017 £M
€412 million EMTN	5.750	2021	368.4
€28.25 million EMTN	4.250	2018	25.3
£101.5 million retail bond	6.125	2020	101.5
Polish zloty 200.0 million PMTN	Six-month WIBOR plus 425 basis points	2020	43.0
Romanian lei 79.5 million EMTN	8.000	2019	15.2
Romanian lei 65.5 million EMTN	7.000	2018	12.5
Hungarian forint 4.0 billion EMTN	11.000	2018	11.5
Czech crown 200.0 million EMTN	5.500	2018	7.0
Czech crown 250.0 million EMTN	5.250	2018	8.8
			593.2
Less: unamortised arrangement fees			(3.2)
			590.0

The Polish zloty 200 million (£43.0 million) bonds are floating rate bonds, although derivative contracts have been used to fix borrowing costs up to June 2020. All of the external bank borrowings of the Group are at floating rates.

The maturity of the Group and Company's external bond and external bank borrowings is as follows:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
<i>Borrowings</i>				
Repayable:				
– in less than one year	79.6	22.4	67.5	–
– between one and two years	15.2	73.2	15.2	71.4
– between two and five years	582.9	527.2	493.3	455.0
Total	677.7	622.8	576.0	526.4

The average period to maturity of the Group's external bonds and committed external borrowing facilities is 2.6 years (2016: 3.3 years).

The currency exposure on external borrowings is as follows:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Sterling	119.1	100.8	129.8	100.8
Polish zloty	62.4	48.4	–	–
Czech crown	28.8	16.3	15.7	14.0
Euro	402.0	373.4	391.3	373.4
Hungarian forint	37.2	18.9	11.5	10.9
Mexican peso	0.2	37.7	–	–
Romanian leu	28.0	27.3	27.7	27.3
Total	677.7	622.8	576.0	526.4

Notes to the financial statements continued

20. Borrowing facilities and borrowings continued

The maturity of the Group and Company's external bond and external bank facilities is as follows:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
<i>Bond and bank facilities available</i>				
Repayable:				
– on demand	19.9	14.6	10.0	5.0
– in less than one year	113.5	42.2	65.1	–
– between one and two years	68.1	85.3	45.9	71.8
– between two and five years	665.5	633.1	511.6	498.7
Total	867.0	775.2	632.6	575.5

The undrawn external bank facilities at 31 December were as follows:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Expiring within one year	53.8	34.4	7.6	5.0
Expiring between one and two years	52.9	12.1	30.7	0.4
Expiring in more than two years	82.6	105.9	18.3	43.7
Total	189.3	152.4	56.6	49.1

21. Risks arising from financial instruments

Risk management

Treasury related risks

The Board approves treasury policies and the treasury function manages the day-to-day operations. The Board delegates certain responsibilities to the Treasury Committee. The Treasury Committee is empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the Board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risk; interest rate risk; currency risk; and counterparty risk. This is to ensure that the Group is properly funded; that interest rate and currency risk are managed within set limits; and that financial counterparties are of appropriate credit quality. Policies also set out the specific instruments that can be used for risk management.

The treasury function enters into derivative transactions, principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options.

Liquidity risk

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The short-term nature of the Group's business means that the majority of amounts receivable from customers are receivable within 12 months with an average period to maturity of around nine months. The risk of not having sufficient liquid resources is therefore low. The treasury policy adopted by the Group serves to reduce this risk further by setting a specific policy parameter that there are sufficient committed debt facilities to cover forecast borrowings plus an appropriate level of operational headroom on a rolling basis. Further, the aim is to ensure that there is a balanced refinancing profile with phased maturity dates; that there is diversification of debt funding sources; that there is no over-reliance on a single or small group of lenders; and that debt facilities and hedging capacity are sufficient for the currency requirements of each country. At 31 December 2017, the Group's bonds and committed borrowing facilities had an average period to maturity of 2.6 years (2016: 3.3 years).

As shown in note 20, total undrawn facilities as at 31 December 2017 were £189.3 million (2016: £152.4 million).

As outlined in the Financial Review on page 35, the Group's home credit company in Poland, Provident Polska, has been subject to tax audits in respect of the Company's 2008 and 2009 financial years. The 2010 and 2011 financial years are currently being audited by the tax authorities in Poland, and all subsequent years up to and including 2017 remain open to future audit. Provident Polska has appealed the decisions made by the Polish Tax Chamber, to the District Administrative Court, for the 2008 and 2009 financial years and has paid the amounts assessed of approximately £37 million (comprising tax and associated interest) which was necessary in order to make the appeals. As noted on page 35, the 2008 and 2009 tax audit decisions are the subject of a process involving the UK tax authority aimed at ensuring that the intra-group arrangement is taxed in accordance with international tax principles and as a result the court hearings have been stayed. In order to appeal any potential future decisions for 2010 and subsequent years, further payments may be required. There are significant uncertainties in relation to the amount and timing of such cash outflows. However, in the event that audits are opened, and similar decisions are reached for each of these subsequent financial years, further amounts of up to c. £123 million may be required to be funded (including approximately £44 million for the 2010 and 2011 years on which audits have commenced).

As at 31 December 2017, in the IPF Digital business there are £46.4 million (2016: £21.3 million) of undrawn credit lines.

21. Risks arising from financial instruments continued

A maturity analysis of gross borrowings included in the balance sheet is presented in note 20. A maturity analysis of bonds, bank borrowings and overdrafts outstanding at the balance sheet date by non-discounted contractual cash flow, including expected interest payments, is shown below:

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Not later than six months	65.4	46.1	52.7	15.4
Later than six months and not later than one year	71.6	61.1	47.0	15.6
Later than one year and not later than two years	49.3	107.7	44.6	100.6
Later than two years and not later than five years	618.8	589.8	525.4	511.6
	805.1	804.7	669.7	643.2

The analysis above includes the contractual cash flow for borrowings and the total amount of interest payable over the life of the loan. Where borrowings are subject to a floating interest rate, an estimate of interest payable is taken. The rate is derived from interest rate yield curves at the balance sheet date.

The following analysis shows the gross non-discounted contractual cash flows in respect of foreign currency contract derivative assets and liabilities, and interest rate swap derivative liabilities which are all designated as cash flow hedges:

Group	2017		2016	
	Outflow £M	Inflow £M	Outflow £M	Inflow £M
Not later than one month	189.3	189.7	166.9	169.7
Later than one month and not later than six months	188.4	189.0	122.1	126.2
Later than six months and not later than one year	52.9	53.8	59.1	57.3
Later than one year and not later than two years	24.9	24.3	73.2	72.9
Later than two years and not later than five years	12.0	11.4	11.8	11.8
	467.5	468.2	433.1	437.9

Company	2017		2016	
	Outflow £M	Inflow £M	Outflow £M	Inflow £M
Not later than one month	45.0	45.5	11.5	11.7
Later than one month and not later than six months	1.6	1.4	10.5	10.1
Later than six months and not later than one year	12.7	15.1	1.6	1.5
Later than one year and not later than two years	-	-	13.0	15.0
	59.3	62.0	36.6	38.3

When the amount payable or receivable is not fixed, the amount disclosed has been determined with reference to the projected interest rates as illustrated by the interest rate yield curves existing at the balance sheet date.

A maturity analysis of the Group's receivables and borrowing facilities as at 31 December is presented below:

Group	Receivables £M	Percentage of total %	Borrowing facilities £M	Percentage of total %
2016				
Less than one year	808.3	86.0	56.8	7.3
Later than one year	131.6	14.0	718.4	92.7
	939.9	100.0	775.2	100.0
2017				
Less than one year	866.9	82.0	133.4	15.4
Later than one year	190.0	18.0	733.6	84.6
	1,056.9	100.0	867.0	100.0

This demonstrates the short-term nature of the amounts receivable from customers which contrasts with the longer-term nature of the Group's committed funding facilities.

Amounts receivable from customers

Risk management policies in respect of amounts receivable from customers are discussed in the credit risk section within this note.

21. Risks arising from financial instruments continued

Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates in each of its countries of operation and, therefore, seeks to limit this net exposure. This is achieved by the use of techniques to fix interest costs, including fixed rate funding (predominantly longer-term bond funding); forward currency contracts used for non-functional currency funding; bank borrowing loan draw-down periods; and interest rate hedging instruments. These techniques are used to hedge the interest costs on a proportion of borrowings over a certain period of time, up to five years, although most hedging is for up to two years.

Interest costs are a relatively low proportion of the Group's revenue (6.7% in 2017; 6.2% in 2016) and therefore the risk of a material impact on profitability arising from a change in interest rates is low. If interest rates across all markets increased by 200 basis points this would have the following impact, net of existing hedging arrangements.

Group	2017 £M	2016 £M
Increase in fair value of derivatives taken to equity	0.3	2.7
Reduction in profit before taxation	1.7	0.9

This sensitivity analysis is based on the following assumptions:

- the change in the market interest rate occurs in all countries where the Group has borrowings and/or derivative financial instruments;
- where financial liabilities are subject to fixed interest rates or have their interest rate fixed by hedging instruments it is assumed that there is no impact from a change in interest rates; and
- changes in market interest rate affect the fair value of derivative financial instruments.

Currency risk

The Group is subject to three types of currency risk: net asset exposure; cash flow exposure; and income statement exposure.

Net asset exposure

The majority of the Group's net assets are denominated in currencies other than sterling. The balance sheet is reported in sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have a material impact on the net assets of the Group. The impact in 2017 is an increase in net assets of £51.3 million (2016: increase of £65.1 million). The Group aims to minimise the value of net assets denominated in each foreign currency by funding overseas receivables with borrowings in local currency, where possible.

Cash flow exposure

The Group is subject to currency risk in respect of future cash flows which are denominated in foreign currency. The policy of the Group is to hedge a large proportion of this currency risk in respect of cash flows which are expected to arise in the following 12 months. Where forward foreign exchange contracts have been entered into, they are designated as cash flow hedges on specific future transactions.

Income statement exposure

As with net assets, the majority of the Group's profit is denominated in currencies other than sterling but translated into sterling for reporting purposes. The result for the period is translated into sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rates in the countries in which the Group operates will have a material impact on the consolidated result for the period.

The following sensitivity analysis demonstrates the impact on equity of a 5% strengthening or weakening of sterling against all exchange rates for the countries in which the Group operates:

Group	2017 £M	2016 £M
Change in reserves	6.8	4.7
Change in profit before taxation	8.6	6.4

This sensitivity analysis is based on the following assumptions:

- there is a 5% strengthening/weakening of sterling against all currencies in which the Group operates (Polish zloty, Czech crown, euro, Hungarian forint, Mexican peso, Romanian leu, and Australian dollar); and
- there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

21. Risks arising from financial instruments continued

Counterparty risk

The Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks; and foreign currency and derivative financial instruments.

The Group only deposits cash, and only undertakes currency and derivative transactions, generally with highly rated banks and sets strict limits in respect of the amount of exposure to any one institution. Institutions with lower credit ratings can only be used with Board approval.

No collateral or credit enhancements are held in respect of any financial assets. The maximum exposure to counterparty risk is as follows:

Group	2017 £M	2016 £M
Cash and cash equivalents	27.4	43.4
Derivative financial assets	10.4	15.4
Total	37.8	58.8

The table above represents a worst case scenario of the counterparty risk that the Group is exposed to at the year end. An analysis of the cash and cash equivalents by geographical segment is presented in note 17.

Cash and cash equivalents and derivative financial instruments are neither past due nor impaired. Credit quality of these assets is good and the cash and cash equivalents are spread over a number of banks, each of which meets the criteria set out in our treasury policies, to ensure the risk of loss is minimised.

Credit risk

The Group is subject to credit risk in respect of amounts receivable from customers.

Amounts receivable from customers

The Group lends small amounts over short-term periods to a large and diverse group of customers across the countries in which it operates. Nevertheless, the Group is subject to a risk of material unexpected credit losses in respect of amounts receivable from customers. This risk is minimised by the use of credit scoring techniques which are designed to ensure the Group lends only to those customers who we believe can afford the repayments. The amount loaned to each customer and the repayment period agreed are dependent upon the risk category the customer is assigned to as part of the credit scoring process. The level of expected future losses is generated on a weekly or monthly basis by business line and geographical segment. These outputs are reviewed by management to ensure that appropriate action can be taken if results differ from management expectations.

Group	2017 £M	2016 £M
Amounts receivable from customers	1,056.9	939.9

The table above represents the maximum exposure to credit risk of the Group at the year end. An analysis of the amounts receivable from customers by geographical segment is presented in note 16.

Amounts receivable from customers are stated at amortised cost and calculated in accordance with the Group's accounting policies. Those amounts receivable from customers that are neither past due nor impaired represent loans where no customer payments have been missed and there is, therefore, no evidence to suggest that the credit quality is anything other than adequate.

Amounts receivable from customers include £3.5 million that is past due but not impaired (2016: £4.6 million). This is in relation to the first four weeks of loans for home credit new customers, and allows a repayment pattern to be established.

An analysis of the amounts receivable from customers that are individually determined to be impaired is set out by geographical segment below:

Group	Not impaired		Impaired	
	2017 £M	2016 £M	2017 £M	2016 £M
Northern Europe	149.1	118.2	293.6	294.5
Southern Europe	93.5	87.7	162.6	150.5
Slovakia and Lithuania	-	0.2	-	2.6
Mexico	25.2	47.0	139.5	114.2
Digital	184.5	109.9	8.9	7.3
Bulgaria	-	2.5	-	5.3
	452.3	365.5	604.6	574.4

This analysis includes all loans that have been subject to impairment. The impairment charge is based on the average expected loss for each arrears stage of customer receivables and this average expected loss is applied to the entire arrears stage. This results in a significant proportion of the amounts receivable from customers attracting an impairment charge. For each segment the amount by which an asset is impaired depends on the type of product, the recent payment performance and the number of weeks since the loan was issued. There will, therefore, be a large amount of receivables which are classed as impaired but where the carrying value is still a large proportion of the contractual amount recoverable. In IPF Digital the default trigger occurs when customers are passed to collections, however an incurred but not reported provision is held in respect of these balances.

Notes to the financial statements continued

21. Risks arising from financial instruments continued

Impairment as a percentage of revenue for each geographical segment is shown below:

Group	2017 %	2016 %
Northern Europe	22.7	23.0
Southern Europe	9.6	20.6
Mexico	34.8	36.5
Digital	41.2	30.1

The carrying value of amounts receivable from customers that would have been impaired had their terms not been renegotiated is £nil (2016: £nil).

Capital risk

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group is not required to hold regulatory capital.

The Group aims to maintain appropriate capital to ensure that it has a strong balance sheet but at the same time is providing a good return on equity to its shareholders. The Group's long-term aim is to ensure that the capital structure results in an optimal ratio of debt and equity finance.

Capital is monitored by considering the ratio of equity to receivables and the gearing ratio. The equity of the Group and these ratios are shown below:

Group	2017 £M	2016 £M
Receivables	1,056.9	939.9
Borrowings	(677.7)	(622.8)
Other net assets	117.7	112.4
Equity	496.9	429.5
Equity as % of receivables	47.0%	45.7%
Gearing	1.4	1.5

Equity as a percentage of receivables was above the Group's internally-set target.

Gearing, which is equal to borrowings divided by equity, at a ratio of 1.4 times (2016: 1.5 times), is well within covenant limits of 3.75 times.

22. Derivative financial instruments

Fair value estimation

IFRS 7 requires disclosure of fair value measurements of derivative financial instruments by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Where fair values are disclosed for financial assets and liabilities not carried at fair value, all such assets are classed as level 1, with the exception of disclosures relating to amounts receivable from customers which are classed as level 3. Details of the significant assumptions in relation to amounts receivable from customers are included in note 24 along with the fair value of other Group assets and liabilities. All of the Group's financial instruments fall into hierarchy level 2.

The Group's derivative assets and liabilities that were measured at fair value at 31 December are as follows:

Group	2017 £M	2016 £M
Assets		
Interest rate swaps	-	0.3
Foreign currency contracts	10.4	15.1
Total	10.4	15.4

Group	2017 £M	2016 £M
Liabilities		
Interest rate swaps	0.6	0.8
Foreign currency contracts	4.2	3.9
Total	4.8	4.7

22. Derivative financial instruments continued

Company	2017 £M	2016 £M
<i>Assets</i>		
Foreign currency contracts	3.5	3.3
Total	3.5	3.3

Company	2017 £M	2016 £M
<i>Liabilities</i>		
Foreign currency contracts	0.1	0.3
Total	0.1	0.3

The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December.

Cash flow hedges

The Group uses foreign currency contracts ('cash flow hedges') to hedge those foreign currency cash flows that are highly probable to occur within 12 months of the balance sheet date and interest rate swaps ('cash flow hedges') to hedge those interest cash flows that are expected to occur within two years of the balance sheet date. The effect on the income statement will also be within these periods. An amount of £2.5 million has been charged to equity for the Group in the period in respect of cash flow hedges (2016: £1.5 million credited to equity). Company: £1.5 million charge (2016: £0.4 million credit).

Foreign currency contracts

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2017 is £462.5 million (2016: £427.2 million). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £173.0 million (2016: £223.4 million). These contracts have various maturity dates up to October 2020 (2016: October 2020). These contracts have been designated and are effective as cash flow hedges under IAS 39 and, accordingly, the fair value thereof has been deferred in equity; and
- foreign currency contracts to buy or sell sterling for a total notional amount of £289.5 million (2016: £203.8 million). These contracts have various maturity dates up to December 2018 (2016: December 2018). These contracts have been designated and are effective as cash flow hedges under IAS 39 and, accordingly, the fair value thereof has been deferred in equity.

£0.3 million credit (2016: £nil) has been made to the income statement in the year representing the movement in the fair value of the Mexican cross currency swap.

The total notional amount of outstanding foreign currency contracts that the Company is committed to at 31 December 2017 is £57.1 million (2016: £34.2 million). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £2.3 million (2016: £3.3 million). All of these contracts are held with external providers to buy and sell currency and have equal and offsetting contracts with other Group companies to buy and sell the same amounts of currency. This leaves the Company with no residual risk and ensures the relevant subsidiary company has an effective foreign currency contract in its books; and
- foreign currency contracts to buy or sell sterling for a total notional amount of £54.8 million (2016: £30.9 million). These contracts have various maturity dates up to November 2018 (2016: November 2018). These contracts have been designated and are effective as cash flow hedges under IAS 39 and, accordingly, the fair value thereof has been deferred in equity.

Interest rate swaps

The total notional principal of outstanding interest rate swaps that the Group is committed to is £43.0 million (2016: £62.2 million). In 2017, these interest rate swaps cover the current borrowings relating to the floating rate Polish bond.

Notes to the financial statements continued

22. Derivative financial instruments continued

Interest rate swaps in place at the balance sheet date are designated, and are effective under IAS 39, as cash flow hedges, and the fair value thereof has been deferred in equity within the hedging reserve. A charge of £nil (2016: £nil) has been made to the income statement in the year representing the movement in the fair value of the ineffective portion of the interest rate swaps and the income statement charge relating to the closure of interest rate swaps.

The weighted average interest rate and period to maturity of the Group interest rate swaps were as follows:

	2017			2016		
	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity Years	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity Years
Group						
Polish zloty	2.7	2.7-2.8	2.4	2.7	2.7-2.8	3.4
Mexican peso	-	-	-	4.2	4.0-4.5	0.5

The Company did not hold any interest rate swaps at 31 December 2017 (31 December 2016: £nil).

23. Analysis of financial assets and financial liabilities

Financial assets

An analysis of Group financial assets is presented below:

	2017			2016		
	Loans, receivables and cash £M	Derivatives used for hedging £M	Total £M	Loans and receivables £M	Derivatives used for hedging £M	Total £M
Group						
Amounts receivable from customers	1,056.9	-	1,056.9	939.9	-	939.9
Derivative financial instruments	-	10.4	10.4	-	15.4	15.4
Cash and cash equivalents	27.4	-	27.4	43.4	-	43.4
Other receivables	19.3	-	19.3	20.8	-	20.8
Current tax assets	5.7	-	5.7	3.1	-	3.1
	1,109.3	10.4	1,119.7	1,007.2	15.4	1,022.6

Financial liabilities

An analysis of Group financial liabilities is presented below:

	2017			2016		
	Financial liabilities at amortised cost £M	Derivatives used for hedging £M	Total £M	Financial liabilities at amortised cost £M	Derivatives used for hedging £M	Total £M
Group						
Bonds	590.0	-	590.0	565.0	-	565.0
Bank borrowings	87.7	-	87.7	57.8	-	57.8
Derivative financial instruments	-	4.8	4.8	-	4.7	4.7
Trade and other payables	145.7	-	145.7	123.2	-	123.2
Current tax liabilities	7.4	-	7.4	16.5	-	16.5
	830.8	4.8	835.6	762.5	4.7	767.2

24. Fair values of financial assets and liabilities

The fair value and carrying value of the financial assets and liabilities of the Group are set out below:

Group	2017		2016	
	Fair value £M	Carrying value £M	Fair value £M	Carrying value £M
<i>Financial assets</i>				
Amounts receivable from customers	1,433.0	1,056.9	1,206.1	939.9
Derivative financial instruments	10.4	10.4	15.4	15.4
Cash and cash equivalents	27.4	27.4	43.4	43.4
Other receivables	19.3	19.3	20.8	20.8
Current tax assets	5.7	5.7	3.1	3.1
	1,495.8	1,119.7	1,288.8	1,022.6
<i>Financial liabilities</i>				
Bonds	567.8	590.0	480.8	565.0
Bank borrowings	87.7	87.7	57.8	57.8
Derivative financial instruments	4.8	4.8	4.7	4.7
Trade and other payables	145.7	145.7	123.2	123.2
Current tax liabilities	7.4	7.4	16.5	16.5
	813.4	835.6	683.0	767.2

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (as used to calculate the carrying value of amounts due from customers), net of collection costs, at the Group's weighted average cost of capital which we estimate to be 10% (2016: 10%) which is assumed to be a proxy for the discount rate that a market participant would use to price the asset.

Under IFRS 13 'Fair value measurement', receivables are classed as level 3 as their fair value is calculated using future cash flows that are unobservable inputs.

The fair value of the bonds has been calculated by reference to their market value where market prices are available.

The carrying value of bank borrowings is deemed to be a good approximation of their fair value. Bank borrowings can be repaid within six months if the Group decides not to roll over for further periods up to the contractual repayment date. The impact of discounting would therefore be negligible.

Derivative financial instruments are held at fair value which is equal to the expected future cash flows arising as a result of the derivative transaction.

For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of their fair value.

25. Retirement benefit asset/obligation

Pension schemes – defined benefit

With effect from 1 March 2010, the Group's defined benefit pension scheme was closed to further accrual of defined benefit obligations.

Scheme assets are stated at fair value as at 31 December 2017. The major assumptions used by the actuary were:

Group and Company	2017 %	2016 %
Price inflation ('CPI')	2.1	2.4
Rate of increase to pensions in payment	2.9	3.2
Discount rate	2.6	2.7

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

25. Retirement benefit asset/obligation continued

The mortality assumptions are based on standard tables which allow for future mortality improvements. Different assumptions are used for different groups of members. Most members have not yet retired. On average, we expect a male retiring in the future at age 65 to live for a further 25 years. On average, we expect a female retiring in the future at age 65 to live for a further 26 years. If life expectancies had been assumed to be one year greater for all members, the defined benefit obligation would increase by approximately £1.6 million.

If the discount rate was 25 basis points higher/(lower), the defined benefit asset would decrease by £2.3 million/(increase by £2.4 million).

If the price inflation rate was 25 basis points higher/(lower), the defined benefit asset would increase by £1.2 million/(decrease by £1.1 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation, as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The amounts recognised in the balance sheet are as follows:

Group and Company	2017 £M	2016 £M
Equities	11.7	22.1
Bonds	10.2	9.6
Index-linked gilts	8.5	8.3
Diversified growth funds	11.7	–
Other	0.2	0.2
Total fair value of scheme assets	42.3	40.2
Present value of funded defined benefit obligations	(40.2)	(49.3)
Net asset/(obligation) recognised in the balance sheet	2.1	(9.1)

The amounts recognised in the income statement are as follows:

Group and Company	2017 £M	2016 £M
Interest cost	1.3	1.4
Expected return on scheme assets	(1.1)	(1.4)
Net cost recognised in the income statement	0.2	–

The net cost is included within administrative expenses.

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

Group and Company	2017 £M	2016 £M
Fair value of scheme assets at 1 January	40.2	36.1
Expected return on scheme assets	1.1	1.4
Actuarial gain on scheme assets	3.9	3.4
Contributions by the Group	1.1	1.1
Net benefits paid out	(4.0)	(1.8)
Fair value of scheme assets at 31 December	42.3	40.2

The Group expects to make a contribution of £0.9 million (2017: £1.1 million) to the deferred benefit pension scheme in the year ending 31 December 2018. The Group is committed to paying £0.9 million per annum into the scheme until 2022 pursuant to a recovery plan agreed with the scheme Trustee.

25. Retirement benefit asset/obligation continued

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

Group and Company	2017 £M	2016 £M
Defined benefit obligation at 1 January	(49.3)	(36.3)
Interest cost	(1.3)	(1.4)
Actuarial gain/(loss) on scheme liabilities	6.4	(13.4)
Net benefits paid out	4.0	1.8
Defined benefit obligation at 31 December	(40.2)	(49.3)

The weighted average duration of the defined benefit asset/obligation is 23.6 years (2016: 26.0 years).

The actual return on scheme assets compared to the expected return is as follows:

Group and Company	2017 £M	2016 £M
Expected return on scheme assets	1.1	1.4
Actuarial gain on scheme assets	3.9	3.4
Actual return on scheme assets	5.0	4.8

Actuarial gains and losses have been recognised through the statement of comprehensive income ('SOCl') in the period in which they occur.

An analysis of the amounts recognised in the SOCl is as follows:

Group and Company	2017 £M	2016 £M
Actuarial gain on scheme assets	3.9	3.4
Actuarial gain/(loss) on scheme liabilities	6.4	(13.4)
Total gain/(loss) recognised in the SOCl in the year	10.3	(10.0)
Cumulative amount of losses recognised in the SOCl	(15.2)	(25.5)

The history of experience adjustments are as follows:

Group and Company	2017	2016	2015*	2014*	2013*
Experience gains/(losses) on scheme assets:					
– amount (£M)	3.9	3.4	(0.9)	2.2	2.1
– percentage of scheme assets (%)	9.2	8.5	(2.5)	6.0	6.3
Experience gains on scheme liabilities:					
– amount (£M)	2.9	–	–	1.2	–
– percentage of scheme liabilities (%)	7.1	–	–	3.1	–

* As required under IAS 19.

25. Retirement benefit asset/obligation continued

Pension schemes – defined contribution

The defined benefit pension scheme is no longer open to further accrual. All eligible UK employees are invited to join stakeholder pension schemes into which the Group contributes between 8% and 20% of members' pensionable earnings, provided the employee contributes a minimum of 5%. The assets of the scheme are held separately from those of the Group. The pension charge in the income statement represents contributions payable by the Group in respect of the scheme and amounted to £0.8 million for the year ended 31 December 2017 (2016: £0.8 million). £nil contributions were payable to the scheme at the year-end (2016: £nil).

In addition, an amount of £nil (2016: £nil) has been charged to the income statement in respect of contributions into personal pension arrangements for certain directors and employees.

26. Share-based payments

The Group currently operates six categories of share schemes: The International Personal Finance plc Performance Share Plan ('the Performance Share Plan'); The International Personal Finance plc Approved Company Share Option Plan ('the CSOP'); The International Personal Finance plc Employee Savings-Related Share Option Scheme ('the SAYE scheme'); The International Personal Finance plc Deferred Share Plan ('the Deferred Share Plan'); The International Personal Finance plc Have Your Share Plan ('the HYS Plan'); and The International Personal Finance plc Discretionary Award Plan ('the Discretionary Award Plan'). A number of awards have been granted under these schemes during the period under review. No awards have been granted under the CSOP, the Discretionary Award Plan, or the HYS Plan in 2017.

Options granted under the Performance Share Plans and CSOPs may be subject to a total shareholder return ('TSR') performance target and/or earnings per share ('EPS') growth; net revenue growth; customer numbers growth; agent turnover; and earnings before interest and tax ('EBIT') performance targets. The income statement charge in respect of the Performance Share Plan and the CSOP has been calculated using both a Monte Carlo simulation (for TSR) and Black-Scholes model (for the other non-market related conditions) as these schemes include performance targets. There are no performance conditions associated with the HYS plan; if an employee purchases a number of shares (subject to a maximum), the Company grants a nil cost option over four times the number of shares initially purchased. The only criterion associated with this option is that the employee must remain in employment for three years following the initial grant date. The income statement charge in respect of this scheme is calculated using the share price at the date of grant. There are no performance conditions associated with the Discretionary Award Plan, the income statement charge in respect of this scheme is calculated using the share price at the date of grant.

The income statement charge in respect of the SAYE scheme is calculated using a Monte Carlo simulation model, however, no TSR targets are assigned. The Deferred Share Plan comprises deferred awards with matching awards. There are no additional performance criteria attached to the deferred awards, therefore, the income statement charge is calculated using the actual share price at the date the award is granted. The matching awards are subject to the same criteria as the Performance Share Plan.

The total income statement credit in respect of these share-based payments is £0.2 million (2016: charge of £3.5 million).

26. Share-based payments continued

The fair value per award granted and the assumptions used in the calculation of the share-based payment charge are as follows:

Group and Company	SAYE schemes	Deferred Share Plans	Performance Share Plans
Grant date	2017	2017	2017
Share price at award date	1.90	1.70	1.60-1.70
Base price for TSR	n/a	n/a	3.00
Exercise price	1.54	n/a	Nil
Vesting period (years)	3 and 5	3	3
Expected volatility	50.5%-56.7%	56.3%	53.3%-56.5%
Award life (years)	Up to 5	3	3
Expected life (years)	Up to 5	3	3
Risk-free rate	1.06%	1.05%	1.05%-1.31%
Expected dividends expressed as a dividend yield	6.32%	7.29%	7.29%-7.75%
Deferred portion	n/a	n/a	50.0%
TSR threshold	n/a	30.0%	30.0%
TSR maximum target	n/a	60.0%	60.0%
EPS threshold	n/a	n/a	86.6p
EPS maximum target	n/a	n/a	101p
Net revenue threshold	n/a	n/a	6.0%
Net revenue maximum target	n/a	n/a	8.1%
Fair value per award (£)	0.40-0.61	0.63-1.37	0.63-1.37

No exercise price is payable in respect of awards made under the Performance Share Plan or the Deferred Share Plan. The risk-free rate of return is the yield on zero coupon UK government bonds with a remaining term equal to the expected life of the award.

Further detail in respect of the Performance Share Plans, CSOPs, Deferred Share Plans, SAYE schemes, HYS Plans and Discretionary Award Plan is given in the Directors' Remuneration Report.

The movements in awards during the year for the Group are outlined in the table below:

Group	SAYE schemes		CSOPs		Deferred Share Plans		Performance Share Plans		HYS Plans		Discretionary Award Plan	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2016	407,587	3.32	213,812	4.30	1,490,878	-	4,420,849	-	309,257	-	120,000	-
Granted	331,153	2.15	276,570	2.93	434,168	-	1,979,324	-	-	-	200,000	-
Expired/lapsed	(292,814)	3.43	(89,973)	4.25	(161,492)	-	(999,869)	-	(55,478)	-	-	-
Exercised	(12,417)	2.40	(9,783)	2.47	(448,803)	-	(1,071,111)	-	-	-	-	-
Outstanding at 31 December 2016	433,509	2.39	390,626	3.39	1,314,751	-	4,329,193	-	253,779	-	320,000	-
Outstanding at 1 January 2017	433,509	2.39	390,626	3.39	1,314,751	-	4,329,193	-	253,779	-	320,000	-
Granted	455,002	1.54	-	-	939,296	-	3,906,137	-	-	-	-	-
Expired/lapsed	(351,263)	2.28	(89,766)	4.22	(128,380)	-	(1,290,668)	-	(163,499)	-	-	-
Exercised	-	-	-	-	(304,746)	-	(311,088)	-	-	-	-	-
Outstanding at 31 December 2017	537,248	1.74	300,860	3.14	1,820,921	-	6,633,574	-	90,280	-	320,000	-

Share awards outstanding at 31 December 2017 had exercise prices of £1.54 - £6.36 (2016: £1.87 - £6.36) and a weighted average remaining contractual life of 7.8 years (2016: 8.2 years).

Notes to the financial statements continued

26. Share-based payments continued

The movements in awards during the year for the Company are outlined in the table below:

Company	SAYE schemes		CSOPs		Deferred Share Plans		Performance Share Plans	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2016	258,430	3.24	138,490	4.40	976,773	-	2,169,945	-
Granted	202,149	2.15	128,605	2.93	247,778	-	781,028	-
Transferred	-	-	-	-	-	-	-	-
Expired/lapsed	(166,489)	3.42	(49,972)	4.47	(151,984)	-	(609,746)	-
Exercised	(9,380)	2.41	(6,747)	2.47	(271,925)	-	(619,376)	-
Outstanding at 31 December 2016	284,710	2.39	210,376	3.55	800,642	-	1,721,851	-
Outstanding at 1 January 2017	284,710	2.39	210,376	3.55	800,642	-	1,721,851	-
Granted	169,082	1.54	-	-	294,447	-	1,606,429	-
Transferred	-	-	-	-	7,144	-	41,589	-
Expired/lapsed	(207,947)	2.36	(51,584)	4.86	(105,675)	-	(633,102)	-
Exercised	-	-	-	-	(196,064)	-	(152,852)	-
Outstanding at 31 December 2017	245,845	1.83	158,792	3.13	800,494	-	2,583,915	-

The Company does not have any awards under the HYS Plan or Discretionary Award Plan.

Share awards outstanding at 31 December 2017 had exercise prices of £1.54 - £6.36 (2016: £1.87 - £6.36) and a weighted average remaining contractual life of 8.0 years (2016: 7.7 years).

27. Share capital

Company	2017 £M	2016 £M
234,244,437 fully paid up shares at a nominal value of 10 pence	23.4	23.4

The Company has one class of ordinary shares which carry no right to fixed income.

The own share reserve represents the cost of shares in International Personal Finance purchased from the market, which can be used to satisfy options under the Group's share options schemes (see note 26). The number of ordinary shares held in treasury and by the employee trust at 31 December 2017 was 11,645,420 (2016: 12,271,406).

28. Reconciliation of profit/(loss) after taxation to cash generated from continuing operating activities

	Group		Company	
	2017 £M	2016 £M	2017 £M	2016 £M
Profit/(loss) after taxation from continuing operations	45.0	71.2	(21.5)	(17.2)
Adjusted for:				
– tax charge	60.6	24.8	1.4	2.3
– finance costs	55.2	46.8	47.5	33.9
– finance income	-	-	(39.0)	(27.8)
– share-based payment (credit)/charge (note 26)	(0.2)	3.5	0.3	2.5
– depreciation of property, plant and equipment (note 14)	10.3	9.9	0.1	0.1
– loss on disposal of property, plant and equipment (note 14)	-	0.8	-	-
– amortisation of intangible assets (note 12)	11.4	9.0	-	-
– impairment of intangible assets (note 12)	3.3	0.7	-	-
Changes in operating assets and liabilities:				
– amounts receivable from customers	(65.9)	(41.5)	-	-
– other receivables	2.0	(6.6)	(67.7)	(71.6)
– trade and other payables	20.2	18.9	90.9	57.8
– retirement benefit obligation	(0.9)	(1.1)	(0.9)	(1.1)
– derivative financial instruments	2.6	(0.2)	(1.9)	-
Cash generated from/(used in) continuing operating activities	143.6	136.2	9.2	(21.1)

29. Commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Group	2017 £M	2016 £M
In less than one year	14.7	15.6
In more than one year but not later than five years	18.3	19.9
	33.0	35.5

Other commitments are as follows:

Group	2017 £M	2016 £M
Capital expenditure commitments contracted with third parties but not provided for at 31 December	8.4	6.1

The Company has no commitments as at 31 December 2017 (2016: £nil).

Notes to the financial statements continued

30. Contingent liabilities

The Group's home credit company in Poland, Provident Polska, has been subject to tax audits in respect of the company's 2008 and 2009 financial years. During these audits the Polish tax authorities have challenged an intra-group arrangement with a UK entity, and the timing of the taxation of home collection fee revenues.

These audits culminated with decisions being received from the Polish Tax Chamber (the upper tier of the Polish tax authority) on 5 January 2017 in relation to the 2008 financial year, and on 23 January 2017 in respect of the 2009 financial year. Provident Polska has appealed these decisions to the District Administrative Court, but has had to pay the amounts assessed totalling approximately £37 million (comprising tax and associated interest) in order to make the appeals. As noted on page 35, the 2008 and 2009 tax audit decisions are the subject of a process involving the UK tax authority aimed at ensuring that the intra-group arrangement is taxed in accordance with international tax principles and as a result the court hearings have been stayed.

The directors have received strong external legal advice, and note that during a previous tax audit by the same tax authority, the Company's treatment of these matters was accepted as correct.

Therefore the payments of the sums outlined above are not a reflection of the directors' view on the merits of the case, and accordingly the payments made in January 2017 have been recognised as a non-current financial asset in these Financial Statements given the uncertainties in relation to the timing of any repayment of such amounts.

The 2010 and 2011 financial years are currently being audited by the tax authorities in Poland. In the event that the Polish tax authorities were to issue decisions following the same reasoning as for 2008 and 2009 around a further £44 million would become payable. In addition, all subsequent years remain open to future audit, meaning that there are further significant uncertainties in relation to the amount and timing of potential additional future payments in relation to these periods. In the event that audits are opened in respect of some or all of these open periods, and similar decisions are reached, further amounts may be required to be paid, the timing of which would be dependent upon the timing of decisions made by the Polish tax authorities for these later periods. Further details on this are set out in note 21.

The Company has a contingent liability for guarantees given in respect of the borrowings of certain other Group companies to a maximum of £243.3 million (2016: £211.5 million). At 31 December 2017, the fixed and floating rate borrowings under these facilities amounted to £99.9 million (2016: £96.5 million). The directors do not expect any loss to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2017 was £nil (2016: £nil).

At 31 December 2017, in the IPF Digital business there are £46.4 million (2016: £21.3 million) of undrawn credit lines.

31. Related party transactions

International Personal Finance plc has various transactions with other companies in the Group. Details of these transactions along with any balances outstanding are shown below:

Company	2017			2016		
	Recharge of costs £M	Interest charge £M	Outstanding balance £M	Recharge of costs £M	Interest charge £M	Outstanding balance £M
Northern Europe	0.1	–	0.5	0.1	–	0.7
Southern Europe	–	–	(0.2)	–	–	–
Mexico	–	10.3	0.4	–	9.5	0.2
Digital	–	–	–	–	–	–
Other UK companies	3.9	14.8	118.4	8.0	16.5	99.8
	4.0	25.1	119.1	8.1	26.0	100.7

The Group's only related party transactions are remuneration of key management personnel as disclosed in note 8.

Alternative performance measures

This Annual Report and Financial Statements provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use, where relevant, and a glossary indicating the APMs that we use, an explanation of how they are calculated and why we use them.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures			
Credit issued growth (%)	None	Not applicable	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business. Credit issued growth is the period-on-period change in this metric which is calculated by retranslating the previous year's credit issued at the average actual exchange rates used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results.
Average net receivables (£M)	None	Not applicable	Average net receivables are the average amounts receivable from customers translated at the average monthly actual exchange rate. This measure is presented to illustrate the change in amounts receivable from customers on a consistent basis with revenue growth.
Average net receivables growth at constant exchange rates (%)	None	Not applicable	Average net receivables growth is the period-on-period change in average net receivables which is calculated by retranslating the previous year's average net receivables at the average actual exchange rates used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results.
Revenue growth at constant exchange rates (%)	None	Not applicable	The period-on-period change in revenue which is calculated by retranslating the previous year's revenue at the average actual exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.
Revenue yield (%)	None	Not applicable	Revenue yield is reported revenue divided by average net receivables and is an indicator of the gross return being generated from average net receivables.
Impairment as a percentage of revenue (%)	None	Not applicable	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business. This measure is reported on a rolling annual basis (annualised).
Cost-income ratio (%)	None	Not applicable	The cost-income ratio is other costs divided by reported revenue. Other costs represent all operating costs with the exception of amounts paid to agents as collecting commission. This measure is reported on a rolling annual basis (annualised). This is useful for comparing performance across markets.
Pre-exceptional profit before tax (£M)	Profit before tax	Exceptional items	Profit before tax and exceptional items. This is considered to be an important measure where exceptional items distort the operating performance of the business.
Effective tax rate before exceptional items (%)	Effective tax rate	Exceptional items and their tax impact	Total tax expense for the Group excluding exceptional tax items divided by profit before tax and exceptional items. This measure is an indicator of the ongoing tax rate for the Group.
Pre-exceptional earnings per share (pence)	Earnings per share	Items identified as exceptional items	Earnings per share before the impact of exceptional items. This is considered to be an important measure where exceptional items distort the operating performance of the business.
Like-for-like profit growth or contraction (£M)	None	Not applicable	The period-on-period change in profit adjusted for the impact of exchange rates and, where appropriate, investment in new business development opportunities. The impact of exchange rates is calculated by retranslating the previous period's profit at the current year's average exchange rate. This measure is presented as a means of reporting like-for-like profit movements.

Alternative performance measures continued

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance sheet and returns measures			
Return on assets ('ROA') (%)	None	Not applicable	Calculated as profit before interest and exceptional items less tax at the effective tax rate before exceptional items divided by average net receivables. We believe that ROA is a good measure of the financial performance of our businesses, showing the ongoing return on the total equity and debt capital invested in average net receivables of our operating segments and the Group.
Return on equity ('ROE') (%)	None	Not applicable	Calculated as profit after tax (adjusted for exceptional items) divided by average opening and closing equity. It is used as a measure of overall shareholder returns adjusted for exceptional items.
Equity to receivables ratio (%)	None	Not applicable	Total equity divided by amounts receivable from customers. This is a measure of balance sheet strength and the Group targets a ratio of around 40%.
Headroom (£M)	Undrawn external bank facilities	None	Headroom is an alternative term for undrawn external bank facilities.
Other measures			
Customers	None	Not applicable	Customers that are being served by our agents or through our money transfer product in the home credit business and customers that are not in default in our digital business.
Customer retention (%)	None	Not applicable	The proportion of customers that are retained for their third or subsequent loan. Our ability to retain customers is central to achieving our strategy and is an indicator of the quality of our customer service. We do not retain customers who have a poor payment history as it can create a continuing impairment risk and runs counter to our responsible lending commitments.
Employees and Agents	Employee information	Not applicable	Agents are self-employed individuals who represent the Group's subsidiaries and are engaged under civil contracts with the exception of Hungary and Romania where they are employees engaged under employment contracts due to local regulatory reasons.
Agent and employee retention (%)	None	Not applicable	This measure represents the proportion of our employees and agents that have been working for or representing the Group for more than 12 months. Experienced people help us to achieve and sustain strong customer relationships and a high quality service, both of which are central to achieving good customer retention. Good agent and employee retention also helps reduce costs of recruitment and training, enabling more investment in people development.

Constant exchange rate reconciliations

2017

£M	Ongoing home credit	IPF Digital	Ongoing Group	Lithuania and Slovakia	Central costs	Group
Customers	2,064.2	226.0	2,290.2	-	-	2,290.2
Credit issued	1,070.7	230.8	1,301.5	-	-	1,301.5
Average net receivables	833.9	159.2	993.1	0.8	-	993.9
Revenue	721.7	104.1	825.8	-	-	825.8
Impairment	(166.7)	(42.9)	(209.6)	8.5	-	(201.1)
Net revenue	555.0	61.2	616.2	8.5	-	624.7
Finance costs	(46.8)	(8.4)	(55.2)	-	-	(55.2)
Agents' commission	(85.5)	0.0	(85.5)	(0.4)	-	(85.9)
Other costs	(293.7)	(64.5)	(358.2)	(4.9)	(14.9)	(378.0)
Profit/(loss) before tax	129.0	(11.7)	117.3	3.2	(14.9)	105.6

2016 performance, as reported in our 2016 financial statements

£M	Ongoing home credit	IPF Digital	Ongoing Group	Lithuania and Slovakia	Central costs	Group
Customers	2,284.0	194.0	2,478.0	43.0	-	2,521.0
Credit issued	991.3	150.2	1,141.5	3.5	-	1,145.0
Average net receivables	758.5	86.4	844.9	19.2	-	864.1
Revenue	687.9	58.1	746.0	10.8	-	756.8
Impairment	(179.4)	(17.5)	(196.9)	12.0	-	(184.9)
Net revenue	508.5	40.6	549.1	22.8	-	571.9
Finance costs	(41.8)	(4.0)	(45.8)	(0.9)	(0.1)	(46.8)
Agents' commission	(82.0)	-	(82.0)	(3.9)	-	(85.9)
Other costs	(257.1)	(45.9)	(303.0)	(25.4)	(14.8)	(343.2)
Profit/(loss) before tax	127.6	(9.3)	118.3	(7.4)	(14.9)	96.0

Foreign exchange movements

£M	Ongoing home credit	IPF Digital	Ongoing Group	Lithuania and Slovakia	Central costs	Group
Credit issued	72.7	10.5	83.2	0.3	-	83.5
Average net receivables	58.5	5.7	64.2	1.6	-	65.8
Revenue	51.8	4.0	55.8	1.0	-	56.8
Impairment	(13.4)	(1.4)	(14.8)	0.5	-	(14.3)
Net revenue	38.4	2.6	41.0	1.5	-	42.5
Finance costs	(3.1)	(0.2)	(3.3)	(0.2)	-	(3.5)
Agents' commission	(5.8)	-	(5.8)	(0.3)	-	(6.1)
Other costs	(16.7)	(3.4)	(20.1)	(1.5)	-	(21.6)
Profit/(loss) before tax	12.8	(1.0)	11.8	(0.5)	-	11.3

2016 performance, restated at 2017 average exchange rates

£M	Ongoing home credit	IPF Digital	Ongoing Group	Lithuania and Slovakia	Central costs	Group
Credit issued	1,064.0	160.7	1,224.7	3.8	-	1,228.5
Average net receivables	817.0	92.1	909.1	20.8	-	929.9
Revenue	739.7	62.1	801.8	11.8	-	813.6
Impairment	(192.8)	(18.9)	(211.7)	12.5	-	(199.2)
Net revenue	546.9	43.2	590.1	24.3	-	614.4
Finance costs	(44.9)	(4.2)	(49.1)	(1.1)	(0.1)	(50.3)
Agents' commission	(87.8)	-	(87.8)	(4.2)	-	(92.0)
Other costs	(273.8)	(49.3)	(323.1)	(26.9)	(14.8)	(364.8)

Year-on-year movement at constant exchange rates

£M	Ongoing home credit	IPF Digital	Ongoing Group	Lithuania and Slovakia	Central costs	Group
Credit issued	0.6%	43.6%	6.3%	(100.0%)	-	5.9%
Average net receivables	2.1%	72.9%	9.2%	(96.2%)	-	6.9%
Revenue	(2.4%)	67.6%	3.0%	-	-	1.5%
Impairment	13.5%	(127.0%)	1.0%	(32.0%)	-	(1.0%)
Net revenue	1.5%	41.7%	4.4%	(65.0%)	-	1.7%
Finance costs	(4.2%)	(100.0%)	(12.4%)	-	(100.0%)	(9.7%)
Agents' commission	2.6%	-	(2.6%)	(90.5%)	-	6.6%
Other costs	(7.3%)	(30.8%)	(10.9%)	(81.8%)	(0.7%)	(3.6%)

Alternative performance measures continued

Return on assets (ROA) for ongoing home credit

ROA is calculated as profit before interest after tax divided by average receivables

	Northern Europe	Southern Europe	Europe	Mexico	Ongoing home credit	Northern Europe	Southern Europe	Europe	Mexico	Ongoing home credit
Profit before tax (£M)	75.6	40.3	115.9	11.7	127.6	59.8	54.5	114.3	14.7	129.0
Interest (£M)	21.7	11.5	33.2	8.6	41.8	24.4	12.2	36.6	10.2	46.8
Profit before interest and tax (PBIT) (£M)	97.3	51.8	149.1	20.3	169.4	84.2	66.7	150.9	24.9	175.8
Taxation ¹ (£M)	(25.1)	(13.4)	(38.5)	(5.2)	(43.8)	(24.4)	(19.3)	(43.7)	(7.2)	(50.9)
Profit before interest after tax (PBIAT) (£M)	72.2	38.4	110.6	15.1	125.6	59.8	47.4	107.2	17.7	124.9
Average receivables (£M)	403.3	205.5	608.8	149.7	758.5	424.0	237.7	661.7	172.2	833.9
Return on assets (ROA)	17.9%	18.7%	18.2%	10.1%	16.6%	14.1%	19.9%	16.2%	10.3%	15.0%

1. Adjusted for exceptional tax charge

Return on assets from continuing operations

	2016 HC Europe	2016 HC Mexico	2016 IPF Digital	2016 Central costs	2016 Slovakia/ Lithuania	2016 Group	2017 HC Europe	2017 HC Mexico	2017 IPF Digital	2017 Central costs	2017 Slovakia/ Lithuania	2017 Group
Profit before tax (£M)	115.9	11.7	(9.3)	(14.9)	(7.4)	96.0	114.3	14.7	(11.7)	(14.9)	3.2	105.6
Interest (£M)	33.2	8.6	4.0	0.1	0.9	46.8	36.6	10.2	8.4	-	-	55.2
PBIT (£M)	149.1	20.3	(5.3)	(14.8)	(6.5)	142.8	150.9	24.9	(3.3)	(14.9)	3.2	160.8
Taxation ¹ (£M)	(38.5)	(5.2)	1.4	3.8	1.7	(36.9)	(43.7)	(7.2)	1.0	4.3	(0.9)	(46.6)
PBIAT (£M)	110.6	15.1	(3.9)	(11.0)	(4.8)	105.9	107.2	17.7	(2.3)	(10.6)	2.3	114.2
Average receivables (£M)	608.8	149.7	86.4	-	19.2	864.1	661.7	172.2	159.2	-	0.8	993.9
Return on assets	18.2%	10.1%	(4.5%)	-	(25.1%)	12.3%	16.2%	10.3%	(1.5%)	-	284.1%	11.5%

1. Adjusted for exceptional tax charge

Return on equity (ROE)

ROE is calculated as profit after pre-exceptional tax divided by average net assets (after adding back exceptional tax charge)

	2015 £M	2016 £M	2017 £M
Equity (net assets)	327.2	429.5	496.9
Add back exceptional tax charge			30.0
Adjusted equity	327.2	429.5	526.9
Average adjusted equity		378.4	478.2
Profit after pre-exceptional tax		71.2	75.0
Return on equity		18.8%	15.7%

Earnings before interest, tax, depreciation and amortisation (EBITDA)

	2016 £M	2017 £M
Profit before tax from continuing operations	96.0	105.6
Add back:		
Interest	46.8	55.2
Depreciation	9.9	10.3
Amortisation	9.0	11.4
EBITDA	161.7	182.5

Shareholder Information

Financial calendar for 2018

1 March	Announcement of 2017 full-year results
12 April	Ex-dividend date for final dividend
13 April	Record date for final dividend
4 May	AGM
11 May	Payment of 2017 final dividend
25 July	Announcement of 2018 half-year report
6 September	Ex-dividend date for interim dividend
7 September	Record date for interim dividend
5 October	Payment of 2018 interim dividend

Dividends and dividend history

Year	Payment date	Interim dividend (p)	Payment date	Final dividend (p)	Total dividend (p)
2007	19 October 2007	1.90	23 May 2008	2.85	4.75
2008	3 October 2008	2.30	22 May 2009	3.40	5.70
2009	2 October 2009	2.30	21 May 2010	3.40	5.70
2010	8 October 2010	2.53	20 May 2011	3.74	6.27
2011	7 October 2011	3.00	1 June 2012	4.10	7.10
2012	5 October 2012	3.23	3 May 2013	4.51	7.74
2013	4 October 2013	3.80	9 May 2014	5.50	9.30
2014	3 October 2014	4.20	8 May 2015	7.80	12.00
2015	2 October 2015	4.60	13 May 2016	7.80	12.40
2016	7 October 2016	4.60	12 May 2017	7.80	12.40
2017	6 October 2017	4.60	11 May 2018	7.80 ¹	12.40 ²

1. Subject to shareholder approval on 4 May 2018

2. Includes final dividend, subject to shareholder approval on 4 May 2018.

Payment of dividends

We can pay dividends directly into a shareholder's bank account. This ensures secure delivery and means that cleared funds are received on the payment date. For shareholders resident outside the UK, we offer dividend payments via Link's International Payment Service to a number of countries which are paid in local currency. To receive more information or to change your preferred dividend payment method, please contact the Company's registrar, Link Asset Services.

Registrar

All administrative enquiries relating to shareholdings including transfers, dividend payments/reinvestments, lost share certificates, duplicate accounts and amending personal details should be addressed to the Company's registrar, details of which are below.

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone:

0871 664 0300 (calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday, excluding public holidays in England and Wales).

Email:

shareholder.services@link.co.uk

Website:

www.linkassetservices.com

Go paperless

Shareholders can register for electronic communications by visiting the website www.myipshares.com.

Why receive information this way?

- Online access to personal shareholding information
- Ability to manage shareholding and personal details proactively
- Receive documents faster
- Helps save paper
- Savings on printing and delivery costs.

To register, shareholders will need their investor code, which is printed on correspondence received from Link. This service will require a user ID and password to be provided on registration.



ShareGift

If you have a small shareholding in International Personal Finance plc, which it is not economic to sell, you may wish to donate the shares to the share donation charity, ShareGift (registered charity no. 1052686).

ShareGift can amalgamate small holdings in order to sell the shares and pass the proceeds on to other charities. Since 1996, ShareGift has given over £25 million to more than 2,500 different charities. More information is available at www.sharegift.org or telephone 020 7930 3737.

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Telephone:

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Website:

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Company number: 6018973

Registered in England and Wales



International Personal Finance plc

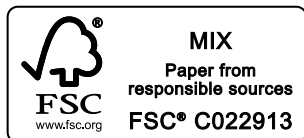
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