



Annual Report and Financial Statements 2018

2018 HIGHLIGHTS

Customers ('000s)

2,301



Credit issued (£m)

£1,360.6m

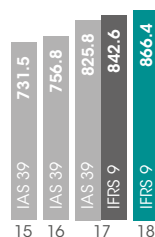
+6%



Revenue (£m)

£866.4m

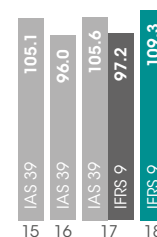
+4%



Profit before tax (£m)

£109.3m

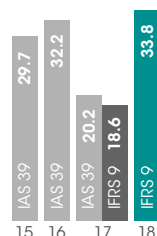
+12%



Earnings per share (p)

33.8p

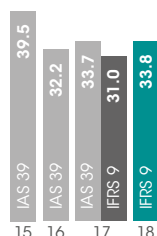
+82%



Pre-exceptional EPS (p)

33.8p

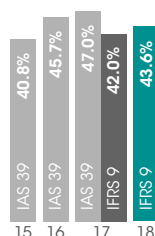
+9%



Equity to receivables (%)

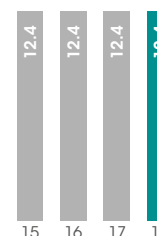
43.6%

+1.6ppts



Dividend per share (p)

12.4p



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 103, a reconciliation of the APMs we use where relevant and a glossary on pages 138 to 143 indicating the APMs that we use, an explanation of how they are calculated and why we use them.

IFRS 9

The performance reporting in this report compares the 2018 actual full-year performance against the 2017 numbers adjusted for IFRS 9 (unless otherwise noted) because the Board believes that this provides the most relevant comparison of performance trends. More detail on IFRS 9 can be found on page 39, and a full reconciliation of the 2017 profit and loss account between the reported numbers and the IFRS 9 numbers is set out on pages 139 and 140.

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 contains 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 2018 in order to present the underlying performance variance.

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INTRODUCTION

Our purpose is to make a difference in the lives of our customers by providing simple, personalised financial solutions. We specialise in providing small sum, unsecured consumer loans and lines of credit responsibly to more than two million customers in Europe, Mexico and Australia who are underbanked or underserved by mainstream credit operators.

We reach our customers through a unique combination of two channels – home credit and digital – enabling us to serve them in a way that suits their lifestyle and financial circumstances.

PROGRESSING OUR STRATEGY



"Our business provides customers with access to finance, many of who return to us time and again demonstrating the trust they place in our products and services."

I am pleased to report that IPF delivered a significantly improved financial performance and excellent strategic progress in 2018. The business has a clear, well-communicated strategy, investing in significant growth opportunities in Mexico home credit and IPF Digital while optimising the performance of our European Home Credit business to deliver the returns that fund our expansion plans and reward shareholders. We responded well to the continuing challenges posed by intense competition, increased regulation and political intervention by introducing new products and more competitive pricing to improve the appeal of our brands.

Our business provides customers with access to finance, many of who return to us time and again demonstrating the trust they place in our products and services. Visiting our operations, meeting colleagues and seeing the way we serve our customers first hand is always a highlight of my role. This year I visited our businesses in Spain, Mexico, Poland and Estonia, and it was great to see the talent and commitment of our teams in meeting the needs of our customers who might otherwise be financially excluded.

Our strategy and performance

We made excellent progress against our strategic objectives. This resulted in a significantly improved financial performance from our ongoing businesses and we reported profit before taxation of £109.3 million, an increase of £15.3 million. Credit issued increased by 6% led by IPF Digital and Mexico home credit, and Group portfolio quality continues to be very good.

Our European home credit business is the financial foundation of the Group and while customer numbers reduced as a result of the intense regulatory and competitive landscape in this region, it was satisfying to see our team deliver a stronger financial performance

than we originally expected for 2018. As planned, Mexico home credit and IPF Digital grew strongly on the back of good customer demand and solid operational discipline, and we expect to see this continue in the year ahead.

As customer needs have changed, we have evolved the business to continue to attract consumers with products that they want, and serve them in a way that suits their lifestyle and financial circumstances. Moving into digital credit four years ago was vitally important to the long-term future of IPF and we see significant benefits from offering customers a choice between agent or digital delivered credit depending on their credit rating and preference. We are also rolling out handheld technology to our agents to improve their productivity, and redesigning customer journeys to make it easier to become a customer and take advantage of our added-value services.

The Group continues to have a strong financial profile and robust balance sheet. This enables us to invest in future growth opportunities while having the strong financial base to provide a level of resilience to the impact of potential external risks.

The external market

As noted earlier, 2018 was not without its challenges with both regulation and competition impacting performance, particularly in Europe. The Board maintains its focus on these matters, not only in managing these risks but also in monitoring how effective our team's work is in mitigating their impact. They undertake this primarily through engaging with governing and regulatory bodies to build an understanding of the important role we play in providing fair and transparent finance to those who might otherwise be financially excluded, and in developing and marketing our credit offerings to attract and retain customers in a highly competitive landscape.

We saw rate cap proposals and new affordability assessment regulations in a number of markets, and further changes to tax law in Poland. The new Polish tax legislation became effective on 1 January 2019, and will likely give rise to an effective tax rate for the Group of around 41% for 2019. In February 2019, the Polish Ministry of Justice published a draft bill containing a modified set of proposals for a reduction in the cap on non-interest costs that may be charged by lenders in connection with consumer loan agreements, details of which are covered in the CEO review on page 22 and our Principal risks on page 45. In Romania new debt-to-income limits were introduced and an APR cap was passed, although the latter is subject to a court challenge. Brexit also formed part of our agenda in 2018, however, as most of our business is transacted outside the UK, the impact is expected to be limited.

Dividend

Subject to shareholder approval, a final dividend of 7.8 pence per share (2017: 7.8 pence per share) will be payable, which will bring the full-year dividend to 12.4 pence per share.

Our people

IPF is a long-established, responsible and ethical business and, once again, many awards were received demonstrating that external stakeholders recognise we are doing the right thing, from serving our customers in a responsible way to offering a great place to work.

The Board spends considerable time ensuring that IPF has the best team to respond to the ever-changing environment in which we operate. Working with the CEO and Group HR Director, we review by market and function, the strength of the teams and their successors to ensure we have the skillset required to be successful. This will be a critical area of focus again in 2019.

Stakeholder engagement

We are an essential part of a competitive credit market and making a positive contribution to society is important to us. We take our responsibilities seriously when it comes to providing access to credit in a responsible and transparent way. Our values and focus on responsible lending guide our decision-making and product design, how we govern the business and how we interact with our stakeholders. Responsible lending is at the core of everything we do. The Board and senior management have established a clear set of ethical values which are embedded throughout all our businesses and, looking ahead, the Board will continue to focus on stakeholder engagement more widely. Later in the strategic report we highlight our primary stakeholders and in the Directors' report I set out the Board's work to ensure we uphold the highest standards of corporate governance in the interests of our shareholders and other stakeholders.

Our Board

I am pleased to announce that Richard Moat will replace Tony Hales as the Group's senior independent director from the conclusion of this year's AGM, subject to Richard's re-election as a director. Richard has the appropriate skills, qualifications and capabilities for this critical role. I would like to thank Tony, who has been our senior independent director since 2010, for his support, valuable insight and significant contribution throughout his time with IPF. He has been a great colleague, providing huge assistance to me in my role and has made an invaluable contribution around the Board table.

We also made great progress in further strengthening our Board with the appointments of Deborah Davis and Bronwyn Syiek as independent non-executive directors in October. Already, we are seeing the benefit of their expertise gained from working in fintech, consumer, marketing and technology businesses, and I am sure they will make a significant contribution to achieving our vision of continuing to be a responsible lender in the digital age. To build on our stakeholder engagement programme, Bronwyn has also been appointed as the workforce and stakeholder engagement director.

Outlook

We will remain focused on serving our customers responsibly while optimising our European home credit operations to generate returns to invest in growing our Mexico home credit and IPF Digital businesses, in addition to delivering enhanced shareholder value. We expect the regulatory and competitive environment to remain challenging but we are confident that we will deliver further sustainable growth and returns.

On behalf of the Board I would like to thank all our colleagues and agents for their contribution. I believe IPF is well positioned to meet both the challenges and immense opportunities ahead.

Dan O'Connor
Chairman

OUR VALUES

Our values are embedded across our organisation irrespective of role or geographical location. They 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 respectful

Treating others as we would like to be treated



We are responsible

Being open and transparent in everything we do



We are straightforward

Taking due care in all our actions and decisions

A LEADING INTERNATIONAL PROVIDER OF CONSUMER CREDIT

Our customers want to borrow small sums that they can repay in manageable, affordable amounts. We offer a range of unsecured consumer finance channels, products and brands to meet their specific needs and financial circumstances. Offering both home credit and digital credit means we are able to serve a larger target segment of consumers.

Home credit

Our home credit channel serves customers who appreciate the face-to-face at-home service provided by our 21,000 agents.

Products and features

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

Home credit

2m (3%)

Customers

£719.4m (1%)

Revenue

Europe – Poland, Czech Republic, Hungary and Romania

1.1m (12%)

Customers

£493.3m (5%)

Revenue

Mexico

0.9m +11%

Customers

£226.1m +9%

Revenue



 [Read more about our customers and their journey](#)
on pages 10-11



IPF Digital

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

Products and features

- Credit line – revolving credit facility
- Instalment loans
- Monthly repayments
- Average instalment loan term around two years
- Average customer outstanding balance £1,100
- Customers served online and through selected distribution partners

IPF Digital

292,000 +29%	£147.0m +41%
Customers	Revenue

Established markets – Finland, Estonia, Latvia and Lithuania

157,000 +11%	£79.5m +24%
Customers	Revenue

New markets – Poland, Spain, Australia and Mexico

135,000 +59%	£67.5m +67%
Customers	Revenue

OUR RESPONSIBLE LENDING PRINCIPLES

IPF is an ethical business and engaging with our customers in a responsible way is extremely important to us. We have worked hard to ensure that responsible lending is core to our business model from strategic decision-making and product design through to the millions of everyday interactions we have with customers each year.



Advertising and marketing

We advertise our products in a clear and appropriate manner.



Affordability

We thoroughly assess a customer's ability to repay the loan. We won't refinance a loan where we think it will be to a customer's detriment.



Product suitability

We provide customers with products that are best suited to their needs. We also offer a 'right to withdrawal' period in case customers change their mind.



Pricing

We offer customers fair and transparent pricing. Late payment fees, if used, are designed to re-engage with customers rather than as a primary revenue stream.



Customer communication

We communicate with customers in a clear manner and uphold their right to confidentiality. We select and train our agents so that they can serve customers to a high standard.

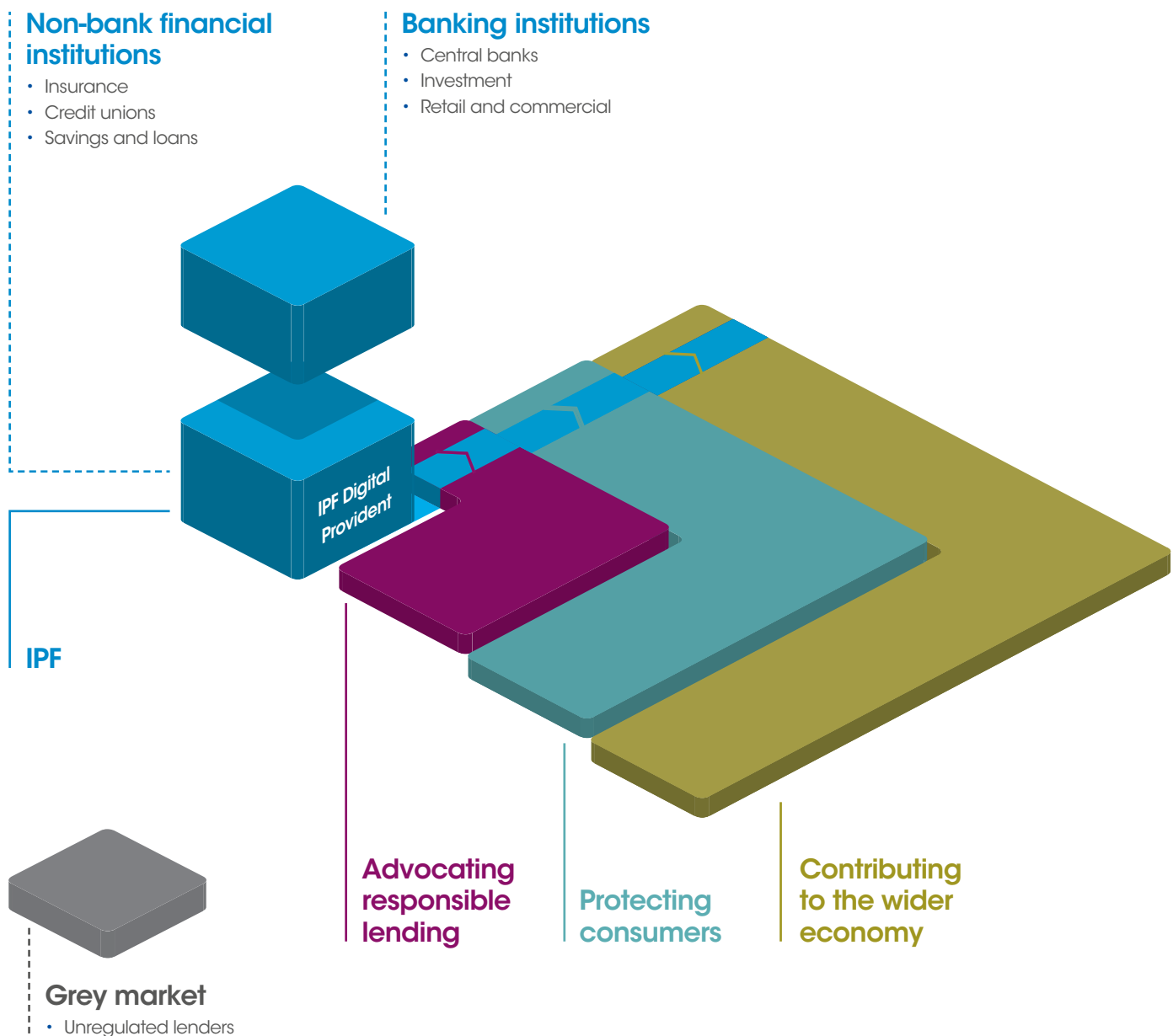


Collections and debt recovery

We collect loan instalments in a responsible manner and do what we can to avoid adversely affecting a customer's credit history. In the case of external debt recovery we only co-operate with reputable agencies.

LIVING OUR SOCIAL PURPOSE

We aim to make a difference in the lives of our customers. We are an important part of a competitive credit market and, as an established, regulated and ethical business, we meet customers' needs by lending responsibly, transparently and without 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 trust they place in our products and service.



Advocating responsible lending

"I am proud to work for a responsible company which puts customers first. We check affordability for each loan carefully to make sure the customer will be able to afford to pay it back."

Magdalena,
agent in Poland



Our loans are granted using robust application and behavioural scoring systems supported by credit bureaux and, in our home credit businesses, the important evaluation of agents, 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.

61.8%

Home credit
customer retention

64.5%

IPF Digital
customer retention

Protecting consumers



"I have taken a Provident loan a number of times because I know I can trust them. Provident has helped me buy new appliances and is very convenient."

Anna,
home credit customer
in Poland

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 are excluded altogether comes with higher risks. 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 we price these loans to take this into account.

98%

employees
completed
ethics training

90%

agents
completed
ethics training

Contributing to the wider economy

"This year in Romania we launched a new financial literacy game, 'You're good with money', which has attracted over 6,000 players. This means that more young people are getting access to high-quality content which helps them to manage their finances more effectively."

Elena, external relations
co-ordinator in Romania



We are an active corporate citizen with more than 28,000 employees and agents contributing to their wider economies through taxes and spending on goods and services. Total tax contribution in 2018 was over £158 million, comprising £82 million of taxes paid (representing a cost to the Group) and £76 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.

£158m

total taxes
contribution in 2018

5,600

hours volunteered by
employees in company time
supporting community initiatives

CREATING VALUE RESPONSIBLY

What we do

We specialise in providing small sum, short-term, unsecured loans and credit lines to consumers who are underbanked or underserved by mainstream financial operators or who may have no or a limited credit history. We do this through two lending channels – home credit and digital.

What makes us different?

Being the only business to offer both home credit and digital loans, we have a differentiated proposition from that of other credit providers. Our home credit business is different because our agents connect us to our customers by providing a personal service in their customers' homes every week or month. Our digital business model meets the needs of a growing number of customers in our consumer segment who want affordable credit that they can manage on their mobile phone, tablet or pc.

How we create value

We believe that the best way to create value for our shareholders and deliver good, sustainable returns is to build close, long-term relationships with our customers. As a trusted, responsible and successful business, we also make a valuable contribution to the communities we serve through spending on goods and services, employment and career development for our people, and through taxes.

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 serviced model while IPF Digital delivers a smaller but growing contribution.

Our 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 served well.

Technology

Technology is fundamental to driving efficiency through agent mobile devices, 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.

Well-known brands

Our brands are well known and trusted by more than 2.3 million customers.

 [Read more about our stakeholder engagement](#)
on pages 12-13

 [Read more about our multi-channel strategy](#)
on pages 16-17

 [Read more about our principal risks](#)
on pages 42-50

Living our social purpose

Advocating responsible lending

How we create value



[Read more about our customers and their journey](#)
on pages 10-11

Value created for our stakeholders

Customers

2.3m
customers served

Employees and agents

28,000
working for IPF

Communities

£729,000
invested in local communities

Shareholders and investors

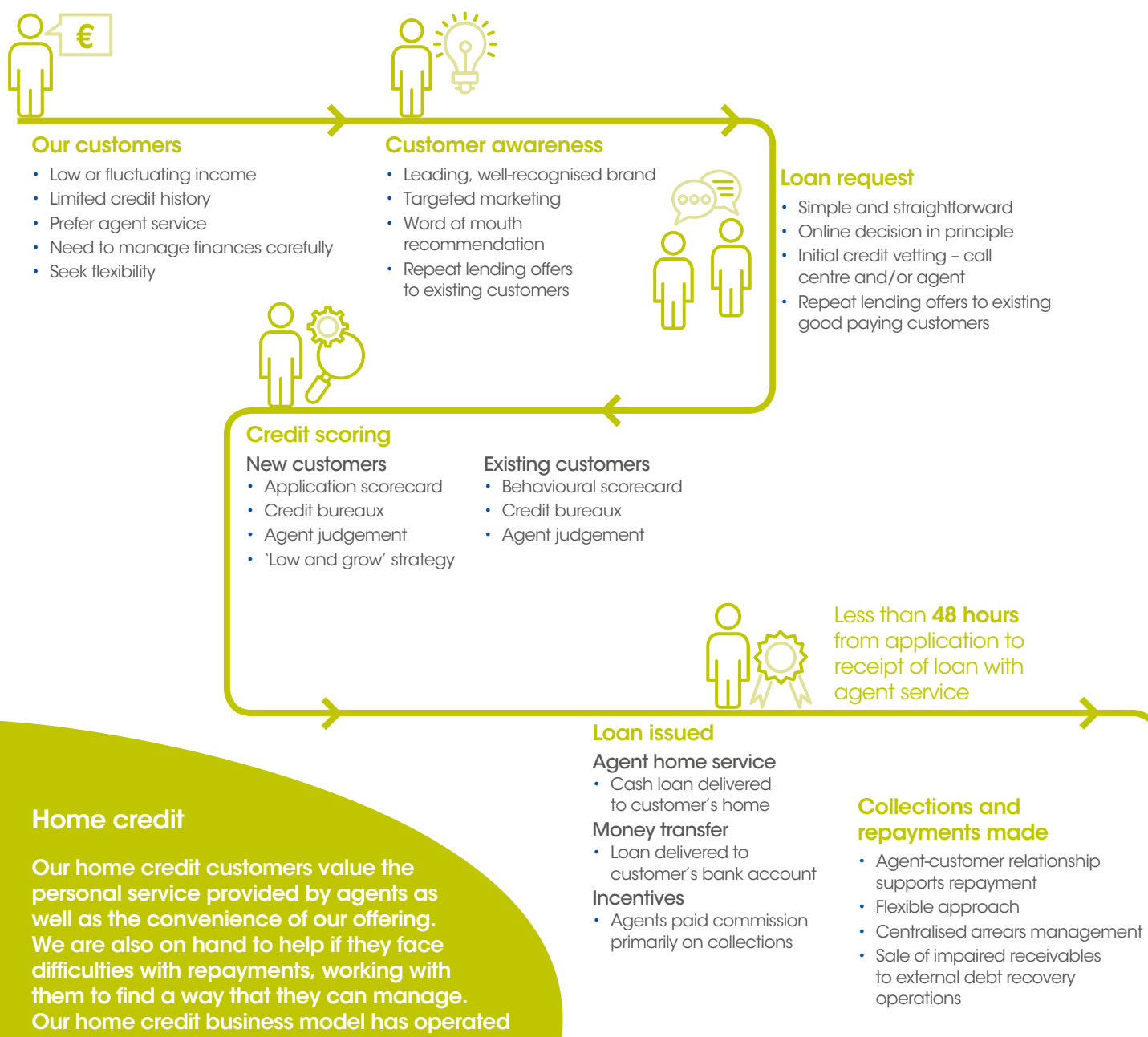
12.4p
dividend per share

Protecting consumers

Contributing to the wider economy

SERVING OUR CUSTOMERS WELL

We offer a personal, flexible service to all our customers whether they are looking for a home credit loan served in their home by an agent or credit delivered online to their bank account.

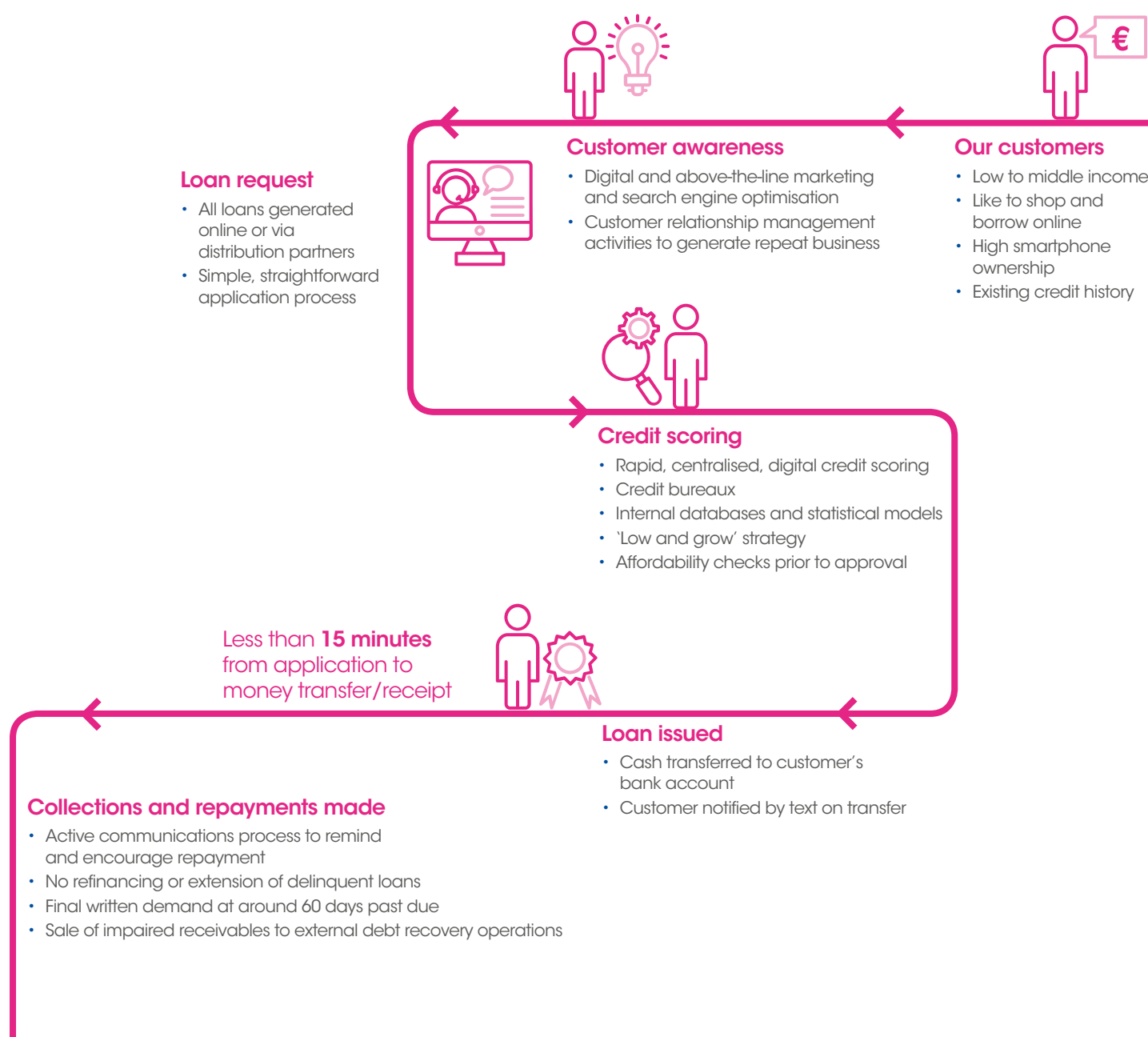


Home credit

Our home credit customers value the personal service provided by agents as well as the convenience of our offering. We are also on hand to help if they face difficulties with repayments, working with them to find a way that they can manage. 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.

IPF Digital

The increasing use of mobile services means a growing number of consumers are choosing to borrow online. We are able to meet their needs through our digital offering, which has operated successfully for nearly 15 years and offers a significant strategic opportunity to grow the number of customers we serve with credit line facilities and instalment loans.



RESPONDING TO OUR STAKEHOLDERS' NEEDS

We engage and listen to our stakeholders to help us define our strategy and ensure we continue to deliver the relevant credit products that meet our customers' needs.



Our stakeholders		Customers	Employees and agents
Why we engage		Engaging with our customers allows us to build a greater understanding of their changing needs and behaviours so we can provide relevant credit products and high levels of service to retain quality customers and attract new ones.	We depend on the skills, talent and commitment of our employees and agents. It is important to engage colleagues 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		<ul style="list-style-type: none">• Affordability and price• Flexible repayments• Convenience• Excellent customer experience• Relevant channels and products• Trusted and responsible provider	<ul style="list-style-type: none">• 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		<ul style="list-style-type: none">• Responsible, affordable credit products and insurance• Forbearance flexibility with home credit• Agent-served or online customer journey• Customer websites and social media• Customer service centres• Customer surveys	<ul style="list-style-type: none">• Annual conferences and business updates• Regular two-way communication• Recognition and reward programmes• Training and development including ethics training• Internal reputational tracking survey

 **Read more about our stakeholders**
on pages 32-36



Communities

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

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

- Financial literacy programmes
- Partnerships with non-governmental organisations (NGOs)
- Financial wellbeing surveys
- Social welfare investment
- Volunteering



Regulators and legislators

We engage with regulators and legislators, which play a central role in shaping the consumer credit sector, to build an understanding of the important role we play in providing fair and transparent finance to those who might otherwise be financially excluded. Regulation with unintended consequences can impact our ability to serve our customer segment.

- Compliance with regulation
- Control and supervision
- Fair pricing and promotions
- Responsible lending and affordability
- Promoting business ethics
- Making appropriate tax contributions
- Fair employment contracts

- Ongoing dialogue
- Sector association membership
- Participation in public consultations
- Engagement on draft regulation
- External advisor network
- NGO partnerships



Shareholders and investors

Our investors expect to earn a return on their investment. 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, performance and outlook
- Risk management and corporate governance
- Leadership capability
- Executive remuneration
- Dividend policy
- Access to management

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

UNDERSTANDING OUR MARKETS

We operate in a rapidly changing landscape. Increasing demand for unsecured credit, rising digital penetration, intense competition and greater regulatory scrutiny are changing the way our customers want to access credit. We are responding to take advantage of the opportunities these factors bring and manage the challenges facing our business.

Key market drivers

Strong demand for unsecured credit

Consumer credit growing

Good demand for unsecured lending to consumers continues in our markets.

Digital lending driving growth

Demand for lending via digital platforms continues to increase the overall scale of the sector.

Positive GDP growth

Relatively stable conditions expected to support growth in demand for consumer credit.

Growing preference for digital options

Increased smartphone and internet penetration

The rapid increase in mobile device usage and internet penetration means a growing number of consumers prefer to take out loans online. Mobile phones have taken over as the primary device for personal loan searches in nearly all our markets.

Home credit very important in credit sector

Home credit continues to provide access to regulated credit to people who might otherwise be financially excluded.

Increased competition

Digital lenders and banks taking best quality customers from home credit

Demand for lending via digital platforms has led to an intensely competitive operating landscape in Europe.

No new home credit operations launched

Competition is focused on introducing digital lending offerings to our consumer segment.

Intense competition to remain

Stable market conditions and good levels of demand for consumer credit will result in a continued intense competitive environment.

Increased regulatory oversight

Regulatory scrutiny will continue

We expect regulators and legislators to remain focused on the consumer credit sector.

Focused on price and affordability

New regulations have driven lower margins and restricted issue values in some of our markets.

We are well positioned to take advantage of the growing demand for credit.



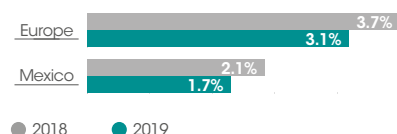
[Read more about our customers](#) on pages 4-5

[Read more about our strategy](#) on page 16-19

Principal risks

Our response

GDP growth



Source: Citibank and European Commission



Twin-track approach

In the past four years, we have expanded our product portfolio and now provide the unique and distinct channel combination of home credit and digital credit offerings to meet the changing needs of consumers.

Smartphone penetration



Source: Google consumer barometer survey 2017



Technology driving customer experience

We are taking advantage of new growth opportunities to serve a wider range of customers in our target segment who want to borrow online by investing in our IPF Digital businesses and offering Provident-branded digital loans.

We intend to provide digital offerings in all our home credit markets.



Banks



Pawnbrokers



Digital lenders



Home credit



Credit unions



Payday lenders



Expanded product offering

We have tackled the growing challenges of increased competition by expanding our offering. We are unique in that we offer our customers both traditional home credit loans delivered by agents and fully digital lines of credit and instalment loans via IPF Digital.

Our markets with rate caps:

- Poland
- Hungary
- Finland
- Estonia
- Lithuania
- Latvia
- Australia



Always compliant with regulation

We always adapt our business to be compliant with new regulations. We engage with regulators to ensure they better understand our role in society and we demonstrate the unintended consequences of overly stringent regulation on consumers and their market.

[Read more about our principal risks](#) on pages 42-50

OUR MULTI-CHANNEL STRATEGY

Our strategy puts our customers at the centre of everything we do. Our success depends on serving our customers well with the credit products and services they want and, in doing so, retain their custom.

Our strategy is to optimise the returns of our more mature European home credit operations so that we can reinvest in growing our Mexico home credit and IPF Digital businesses, as well as delivering returns to our shareholders.

Our strategic priorities are focused on enabling us to continue to build a sustainable business which generates long-term growth and enhanced profitability, and makes efficient use of capital. Achievement of this strategy depends on the talent, skills and commitment of our people, and investment in technology to deliver the credit products of today and tomorrow.

2018 strategic priorities



IPF Digital

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

Mexico home credit

- Expand geographical footprint
- Build micro-business loans channel
- Improve operational efficiency and customer penetration rates in established branch network

European home credit

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

 [Read more in the CEO review](#)
on pages 20-23

2018 performance

- Good demand for credit line product
- Strong top-line growth
- Significantly improved credit quality in new markets

Strategic KPIs

292,000

Customers

35%

Year-on-year credit issued

41%

Year-on-year revenue

37.8%

Impairment % revenue

57.9%

Cost-income ratio

(£5.6m)

Loss before tax

2019 focus

- Continue to provide superior customer experience through innovation
- Designing new products and services
- Build scale and leverage data
- Prepare to enter home credit markets with digital offering
- Deliver maiden profit

- Good credit issued and customer growth
- Five new branches
- Maintained acceptable collections
- Good demand for micro-business loans channel
- Improved cost leverage

0.9m

Customers

12%

Year-on-year credit issued

9%

Year-on-year revenue

36.7%

Impairment % revenue

38.7%

Cost-income ratio

£15.7m

Profit before tax

- Expand geographical footprint
- Build micro-business loans channel
- Improve operational efficiency and customer penetration rates in established branch network

- Stronger than originally expected financial performance
- Excellent credit quality
- Intense competition and regulatory pressure drove customer contraction
- Proactively engaged with regulators to protect the model
- Provident-branded digital offering in Poland expanded

1.1m

Customers

(5%)

Year-on-year credit issued

(5%)

Year-on-year revenue

17.9%

Impairment % revenue

40.9%

Cost-income ratio

£113.8m

Profit before tax

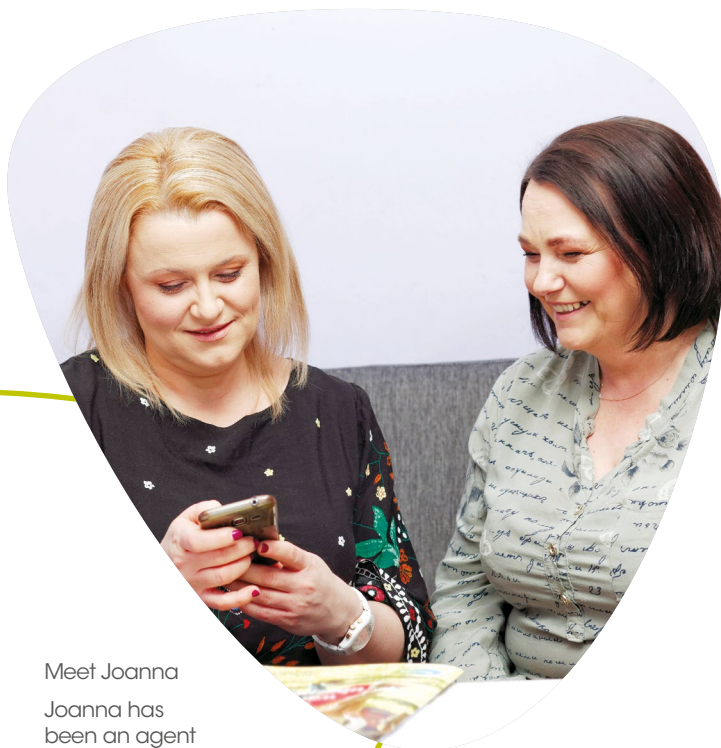
- Provide high-quality service to customers and optimise operations for returns
- Invest in technology to improve customer experience and business efficiency
- Protect the business model
- Leverage the Provident brand
- Moderate rate of customer contraction

 [Read more on our 2018 operational performance](#)
on pages 26-31

 [Read more on our principal risks and uncertainties](#) on pages 42-50

STRATEGY IN ACTION

We made excellent progress in delivering against our strategy in 2018. We are focused on our strategic priorities of delivering a high-quality service to customers so that we can optimise returns in our European home credit operations to reinvest in growing our Mexico home credit and IPF Digital businesses. Here we highlight some of the progress made.



Meet Joanna
Joanna has been an agent in Piaseczno near Warsaw for five years and serves around 100 customers.

European home credit – MyProvi

A core part of the European home credit strategy is to modernise our operations through MyProvi – our handheld mobile technology application for agents.

MyProvi at a glance

- Supporting agent sales, collections and weekly balancing
- Facilitating further efficiencies in our field teams
- Reducing paper and administration costs
- 10,000 agents and field managers using MyProvi
- Roll-out in Europe complete – sales functionality to be added in 2019
- Technology developed in-house over the past three years
- Rolling out in Mexico home credit
- Underpinning future efficiency

“Using MyProvi, I can see the details of my customers and their current repayments. Providing receipts on the customer portal means my customers no longer need to keep paper copies and completing our records and transactions using a mobile shows we are much more modern compared to when we carried a lot of paper.”

Joanna

Mexico home credit – Negocio

One of the growth pillars of our strategy in Mexico is focused on tapping into the micro-business loans market, which we see as a significant opportunity. Our offering is known as 'Negocio' and we are generating growth by serving individuals who run small businesses.

Negocio at a glance

- A great growth opportunity
- Four million micro-businesses in Mexico
- 26,000 Negocio customers
- Customers are underserved and struggle to get credit to develop their businesses
- Loan value typically 4x larger than a home credit loan
- Loan term is around one year

"The loan meant I could buy this special printer for plastic and fabric materials straight away and it helped me to present a professional service and increase my customers."

Elizabeth



Meet Elizabeth

Elizabeth has been running her flower shop micro-business in Puebla city since 2011. Every day, she delivers fresh flowers, bouquets, funeral wreaths and casket sprays to local businesses and customers. Elizabeth turned to Provident for a Negocio loan to buy a printer enabling her to include personalised messages on her products. Elizabeth is already planning her next investment in her business through a Negocio loan to buy a delivery van, so she can continue to grow her customer base through home delivery.



Meet Ella

Ella is one of our IPF Digital credit line customers in Finland.

IPF Digital – credit line

The key driver of growth in IPF Digital has been the good demand for our credit line offering, which now accounts for 60% of our digital lending. It provides great flexibility, enabling customers to draw down a pre-approved line of credit in minutes, either in part or full, to buy the goods they want, when they want them. Customers feel in control and like the fact that they only pay interest on the amount drawn down for the time they borrow, subject to a minimum monthly payment. If a customer demonstrates good repayment behaviour we may offer to increase their facility to provide more flexibility. This supports customer retention because the approved credit is continuously available to customers to use time and again.

Credit Line at a glance

- A great growth opportunity
- 181,000 credit line customers
- Typical credit line outstanding balance: £1,000
- 60% of loan portfolio
- Supports customer retention

"I wanted to surprise my husband with a weekend away for our anniversary and, because the hotel's night club had a famous Finnish artist performing, I was afraid that all the rooms would be booked if I waited, so I drew some money down from my Credit24 credit line account and reserved the room immediately."

Ella

DELIVERING AGAINST OUR STRATEGIC OBJECTIVES



"We are focused on delivering for our customers, and offering them more tailored choices and digital options for accessing our products and services."

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

Q. How would you define IPF's purpose?

Put simply, our purpose is to provide less affluent consumers and micro-business owners with a means of obtaining finance in a transparent and fair way. In doing so, we want to make a meaningful difference to people's lives and also provide them with the opportunity to build a credit record that will help them in future financial transactions.

Q. How would you view the Group's performance in 2018?

Our performance in 2018 is one of our best in a number of years. Our teams were focused on delivering our strategy of optimising performance in our more mature European markets and investing smartly in our growth opportunities, namely Mexico home credit and IPF Digital. At the same time, we are delivering new technology to improve the customer experience and make our businesses more efficient.

This attention to detailed execution enabled our European home credit businesses to deliver profit before tax of £113.8 million, an uplift of £1.5 million on the prior year. It also drove an increase in profit before tax to £15.7 million in Mexico home credit, and set our IPF Digital business firmly on the path to profitability in 2019 with a reduction in annual losses to £5.6 million compared with a loss of

£16.3 million in 2017. This resulted in a significantly improved financial performance for the Group as a whole with a £15.3 million increase in profit before tax to £109.3 million.

Q. What were the operational highlights in 2018?

The easiest way for me to talk about our 2018 operational performance is to look at the three business units in the same way that we manage them internally.

European home credit

Starting with European home credit, the first thing I would say is that these businesses operate in an intensely competitive and heavily regulated environment. Recent regulatory change has restricted our ability to lend to higher risk customer segments that had previously been an area of expertise for us. In response, we adapted our business model to cater to slightly lower risk consumers, which translated into a smaller business in Europe overall, but one which has a better portfolio risk profile. Competition for these consumers is intense, and together with new debt-to-income regulations in Romania, customer numbers contracted by 12%. We responded with campaigns to increase new customer acquisition and improve retention which delivered a 3ppt slower rate of contraction in the second half of the year compared to the first. We also worked hard to reduce our cost base and passed on some of that benefit in reduced pricing to our customers.

Mexico home credit

Mexico home credit is one of our two main focus areas for growth. We delivered an increase in credit issued of 12% and grew customer numbers by 89,000 to 917,000. Following the earthquakes in the latter half of 2017, our business recovered well and I would attribute the speed of recovery to the fact that we prioritised helping our customers to return to a sense of normality. As part of our multi-year expansion plan, we added five more branches to our network while also investing in our micro-business lending channel. Together, our expanded geographic footprint and micro-business lending unit combined will continue to drive solid top-line growth.

IPF Digital

Our digital business continued to make great progress in 2018. Our team delivered strong growth in both our new and established markets, contributing to a very positive 35% growth in credit issued in the year. Just as importantly, we delivered significantly improved portfolio quality in each of our new markets. This improvement is driven mainly by the enhanced performance of our credit scorecards as these businesses grow and mature, and we expect to see further improvements in the year ahead.

Q. How are you delivering against your strategy?

Our strategy recognises that we operate in a heavily regulated environment, where competition is intense and where customers are increasingly looking at digital financial services, but at the same time want to deal with a trusted partner.

With this understanding in place, our teams have worked hard to ensure that we have clear insights into the changing preferences of our consumer segment, allowing us to tailor our products and

customer journeys to meet their needs more effectively. This is a process that will see us provide more digital options to our customers as well as slightly larger, longer-term loans, and more additional services such as insurance, all of which will offer benefits that our customers would not normally be able to procure at a cost-effective price. During 2018, we made excellent progress on all of these customer-facing aspects of our strategy.

In order to fulfil our purpose and achieve appropriate returns for our shareholders, we need to have a strong and well-managed balance sheet, and I am pleased to say that this is certainly the case. Our portfolio quality is very good and our funding position is structured to provide significant headroom with a diversified debt portfolio of bond and bank facilities.

Q. What are the key risks and challenges facing IPF?

If I read back through our Annual Reports published over the last few years, the answer to this question would be consistent. Essentially it comes down to three key themes; changing customer preferences, increasing regulation and intensifying competition.

More consumers are looking at digital options for their finance needs. However, it is important to know that this is not incompatible with the provision of a home credit model. In fact, I believe this will turn out to be one of the great strengths of our Group. In our customer segment, around 80% of people will be rejected when they apply for a digital loan due to their weak credit history. Generally, these are the customers who are well positioned to be served a home credit loan, helping them to build a stronger credit profile over time.

Increasing regulation has been a constant issue and is something we are now much better able to deal with. We have invested significant time in building relationships with those key external stakeholders who ultimately determine the regulatory environment in our markets. This engagement allow us to explain our purpose and business model and, in the past 12 months in particular, have given us the opportunity to provide insights in to what makes new regulation more likely to work for both consumers and providers of finance. A good example of this productive dialogue is the activity we have undertaken in Romania where, through transparent discussions, we were able to explain how setting appropriate APR caps would help reduce prices for the least advantaged consumers while simultaneously ensuring that progress towards full financial inclusion was not hindered.

As for competition, we expect it to remain intense. In the past 12 months, we have also seen a change in the make up of the competitive landscape. Payday lenders appear to be reducing in terms of threat, driven by new regulation that has introduced lower interest rate caps and constraints on repeat lending that affect their business model in particular. Competitive pressure, however, has been maintained principally by banks, which increased their appetite for our best credit-quality customers. Ultimately, competition is good as it forces us to continually re-evaluate how we do business and improve our services to our customers in order to stay relevant to them.

OUR INVESTMENT CASE

We are a profitable, well-funded consumer credit business with a track record of meeting underserved customers' needs responsibly

Highly responsible consumer finance

World's largest home credit business and a leading fintech operator

2.3m
Customers

Focused business and financial strategy

Developing businesses earning good returns and maintaining a strong financial profile

18.3%
Return on equity

Effective risk management

Long track record of managing key risks including credit, regulation, competition and liquidity

26.2%
Impairment
% revenue

Strong financial profile

Robust balance sheet and strong funding position

186m
Headroom on
bank facilities

Experienced management team

Broad range of financial services experience

76.2%
Employee retention

Q. What is the status of the draft proposals to tighten non-interest costs on consumer loans in Poland?

On 18 February 2019, the Polish Ministry of Justice published a draft bill containing a modified set of proposals for a reduction to the cap on non-interest costs that may be charged by lenders in connection with consumer loan agreements. The level of the current cap is as follows: first, a flat level of 25% of the loan value; and second, an additional cap of 30% per annum; the combined total of both of which may not, in any event, exceed 100% of the loan value. The Ministry of Justice had previously published a draft bill in December 2016 under which the flat level cap and the additional per annum cap would have been reduced to 10% and 10% respectively, the combined total being limited to 75% of the loan value. Under the most recent modification, the new proposal regarding non-interest costs is to reduce the flat level cap to 20% and the additional per annum cap to 25%, the combined total being limited to 75% of loan value. There is no proposal to reduce the current cap on interest charges. The proposals are open to public consultation for two weeks from the date of their publication and if approved in their current form, could be effective during the second calendar quarter of 2019. Once the proposals are finalised, we will update the market with our assessment of the likely financial impact on the Group.

Q. When will you know more about the tax audit issues in Poland?

We are dealing with a significant tax challenge in Poland and this matter is now the subject of discussion between the Polish tax authority and the UK HMRC. We remain confident of the strength of our case but given the complex nature of these matters, I expect it will take some time before we are able to update the market with any significant developments. Further details on this matter are included in the Financial review on page 41 and Financial Statements.

Q. How will you optimise your more mature markets in Europe?

I referenced earlier in this interview that Europe is our most competitive operating environment and it has seen the most intense regulatory change. It is also where customers' preference for digital credit has been most evident, which led to a reduction in customer numbers in our home credit businesses in this region during 2018.

To deal with this challenging environment, we have a very clear strategy that has been in place for two years. Our objective is to use our unrivalled knowledge of our target customer segments to be able to offer slightly larger, longer-term loans, while increasing accessibility to consumer finance products for our customers and improving the overall quality of our portfolio. All of this will be enabled by smart investments in technology that will offer our customers more choice and make us more efficient.

Q. Is it possible to deliver value to society and progressive returns for your shareholders?

Undoubtedly, the answer is yes as one drives the other. Our business promotes financial inclusion for consumers who find it more difficult to get finance from banks, and offers them an opportunity to build their credit profile. The loans we provide can make a genuine difference to their lives when their needs are pressing. Provided that we continue to run our business efficiently, the more successful we are at meeting the needs of our customers then the stronger our business will become. Ultimately, this will be reflected in a progressive return for our shareholders.



Q. How do you ensure that your businesses lend responsibly and behave in an ethical way?

With around 28,000 employees and agents working in 12 countries, the most effective way to achieve responsible and ethical behaviours is to ensure that we have a strong ethical compass that sets the direction in which we lead the business. We spend a lot of time and resource ensuring that this is the case, always reminding our teams that we should only do business in a way that would make us proud if we saw it being described in the media. We invest in annual programmes that all colleagues must complete to ensure we are constantly reminded of the importance of doing business in the right way. We also ensure that our incentive schemes are designed to promote the behaviours we want to see and we offer independently run 'speak up' lines that employees can use, in a confidential manner, to raise any concerns they might have so that appropriate action can be taken.

Q. How do you invest in developing your teams?

I genuinely believe that we have a unique business that provides great service to our customers, based on years of accumulated knowledge of our sector and a very strong sense of purpose. Our markets are changing, driven by new regulation, competition and changing customer preferences, and in order to be as relevant in the future as we have been for the past two decades, we need to invest continually in developing our teams. We make a real effort to ensure that this investment benefits all colleagues, not just our most senior leadership.

We have built a 'learning hub' offering online training and development across multiple areas. This is freely available and promoted throughout the business. Over the past two years, we have invested significantly to roll out mobile handheld technology that will make our agents' roles both easier and more rewarding. At our senior leadership level, we offer bespoke international development opportunities, including our Aspire programme, that seek to identify and train our next cohort of leaders.

Q. What are your ambitions for 2019?

On the back of a very successful year, I am focused on building on this progress to ensure we continue to deliver for our customers, offering them more tailored choices and digital options for accessing our products and services.

Clearly, I'd like to see positive progress on the regulatory and tax audit challenges in Poland, as this would provide more certainty for our investors and our business as a whole. We will continue to invest time and energy in engaging with regulators and policymakers in all our markets to represent and advocate the benefits of a responsible and well-functioning non-banking credit market for both consumers and business.

I expect to see further good growth in our Mexico home credit and IPF Digital businesses, with the latter focused on bringing new products and technology to market, and delivering its maiden profit.

I'd like to complete our discussion by taking this opportunity to thank all of my colleagues for their dedication to our customers, and for the energy and enthusiasm they bring to work every day. It is inspiring to be able to lead a business with such a winning team.



MAKING EXCELLENT PROGRESS ON OUR STRATEGY

Our goals to serve our customers well and deliver shareholder value drive our strategy. In order to measure this, we assess our performance against the following key performance indicators, each of which is linked to our long-term strategy.

Customer numbers ('000)

2,301



Performance

The total number of customers across the Group was stable in 2018. Good levels of growth were generated in Mexico home credit and IPF Digital, offset by European home credit where customer contraction was driven primarily by regulatory and competitive pressures.

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, if they contravene our credit policies or have a poor repayment record.

Looking ahead

We expect to see further customer growth in IPF Digital and Mexico home credit, partially offset by moderate contraction in European home credit.

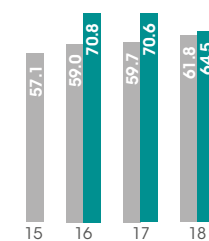
Customer retention (%)

61.8%

Home credit

64.5%

IPF Digital



Performance

The number of customers who have had three or more loans with our business. Customer retention in our home credit businesses improved slightly in 2018. The change in IPF Digital's customer retention reflects the greater proportion of new customers being served by this growth business.

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.

Looking ahead

We aim to maintain customer retention rates supported by continuing to evolve our product offering so that it remains relevant to the changing needs of our customers.

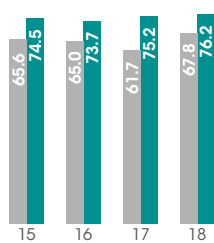
Employee and agent retention (%)

67.8%

Agent

76.2%

Employee



Performance

The proportion of employees and agents who have worked with us for more than 12 months. Both employee and agent retention improved across the Group in 2018.

Why we measure it

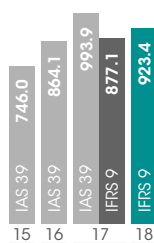
Experienced people help us achieve and sustain strong customer relationships and deliver a high-quality service. Good retention also helps reduce recruitment and training costs, enabling more investment in people development.

Looking ahead

We aim to improve employee and agent retention.

Average net receivables (£m)*

£923.4m



Performance

The average amounts receivable from customers translated at constant exchange rates increased by 6% in 2018, driven by our growth businesses, 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 because it is a key driver of revenue growth.

Looking ahead

We expect continued growth in average net receivables as we expand the business.

Revenue (£m)*

£866.4m

Performance

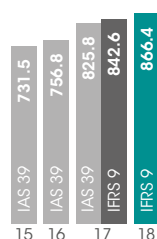
Revenue, which is income generated from customer receivables, increased by 4% driven primarily by growth in IPF Digital and Mexico home credit.

Why we measure it

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

Looking ahead

We expect continued growth in revenue as we expand the business.



Impairment as a percentage of revenue (%)*

26.2%

Performance

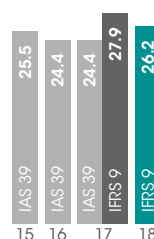
Impairment is the amount charged as a cost to the income statement as a result of customers defaulting on contractual loan payments. Good credit quality and collections, together with debt sales, resulted in a 1.7ppt improvement in impairment as a percentage of revenue to 26.2%.

Why we measure it

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

Looking ahead

We expect impairment as a percentage of revenue to remain within our target range of 25% to 30%.



Cost-income ratio (%)*

44.9%

Performance

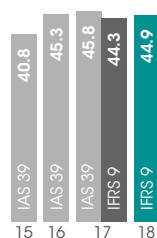
The direct expenses of running the business (excluding agents' commission) as a percentage of revenue. The cost-income ratio increased reflecting improved operating leverage in our growth businesses offset by European home credit where lower levels of revenue led to an increase in this ratio.

Why we measure it

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

Looking ahead

We aim to deliver improved cost-efficiency throughout the Group's businesses.



Return on assets (ROA) (%)*

12.5%

Performance

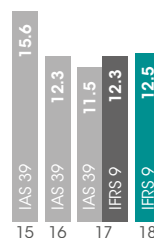
ROA is measured as profit before interest and exceptional items, after tax, and divided by average net receivables. Group ROA increased by 0.2ppts to 12.5% due to the increase in like-for-like profit.

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.

Looking ahead

We aim to deliver progressive improvements in ROA as the IPF Digital business matures.



* 2018 actual full-year performance against 2017 adjusted for IFRS 9

 **For a reconciliation and glossary of the alternative performance measures that we use**
see pages 138-143

GROUP PERFORMANCE OVERVIEW

Group performance overview

Executing in line with our strategic objectives and remaining committed to strong operational discipline resulted in a £15.3 million (16%) increase in profit before tax to £109.3 million from ongoing businesses. This comprised an uplift in like-for-like profit before tax of £15.2 million, a benefit of £1.7 million from lower new business investment and a £1.6 million adverse impact from weaker FX rates. The reduced new business investment comprised £3.6million within IPF Digital's new markets and central functions where start-up losses reduced, offset partially by increased new business investment of £1.9 million in Mexico home credit.

The table below details the performance of each of our business segments, highlighting the significant like-for-like improvement in profit before tax delivered.

We made excellent progress against our strategic objectives which delivered a very strong financial performance in 2018. Profit before tax increased by £15.3 million to £109.3 million as a result of improving profits across all our businesses.

	2017 IFRS 9 profit £m	Like-for-like profit movement £m	New business investment movement £m	Stronger/ weaker FX rates £m	2018 IFRS 9 profit £m
European home credit	112.3	2.2	–	(0.7)	113.8
Mexico home credit	12.9	5.9	(1.9)	(1.2)	15.7
Digital	(16.3)	6.8	3.6	0.3	(5.6)
Central costs	(14.9)	0.3	–	–	(14.6)
Profit before taxation from ongoing businesses	94.0	15.2	1.7	(1.6)	109.3
Slovakia and Lithuania	3.2	(3.4)	–	0.2	–
Profit before taxation from continuing operations	97.2	11.8	1.7	(1.4)	109.3

The increase in profit comprised £15.3 million from our ongoing businesses offset partially by a £3.2 million reduction in the contribution from Slovakia and Lithuania, which reported a profit in 2017 when they were being wound down. We are in the process of liquidating the home credit businesses in Slovakia and Lithuania, and this did not result in any profit and loss account charge or credit during 2018. Statutory profit before tax increase, IAS 39 2017 to IFRS 9 2018, is £3.7 million.

We delivered a 6% increase in credit issued led by our IPF Digital and Mexico home credit businesses, offset partially by a 5% contraction in European home credit. This growth increased our average net receivables by 6%, and revenue by 4%. We maintained strong credit quality and good collections across the Group and improved impairment as a percentage of revenue by 1.7ppts to 26.2% (2017: 27.9%). Our cost-income ratio increased by 0.6ppts to 44.9%, driven by improved operating leverage in IPF Digital and Mexico home credit offset by a modest increase in the cost-income ratio in European home credit.

Market overview

Macroeconomic conditions in all our European markets in 2018 were stable and current indicators suggest these markets will deliver positive GDP growth, low unemployment and moderately increasing inflation in 2019. In Mexico, political change resulted in some uncertainty in 2018 and GDP growth forecasts for 2019 remain positive but have softened slightly in recent months.

In all our markets, we continue to see a growing number of consumers wanting to access finance, although it is clear that a very significant proportion of our target market do not have the credit quality required to be served remotely by mainstream lenders. Competition for the best quality customers in our demographic is intense and our IPF Digital brands and Provident-branded digital offers are targeted directly at consumers in this segment who have the credit profile to qualify for a remote loan.

Based on our experience across several markets, we see home credit co-existing very comfortably with digital credit offerings as the combination of the two can serve the vast majority of the customers in our segments. In particular, our home credit model, with the involvement of an agent at the customer's home, allows us to gain a unique and in-depth understanding of a customer's financial circumstances and propensity to repay. As a result, we are able to lend with more confidence to creditworthy customers where a remote lending business cannot.

Strategy update

Our business provides small sum, unsecured personal loans to customers who are either underbanked or underserved by mainstream operators. Our strategy is to provide consumers in this segment with a greater choice of channels, products and price points, and to make their journey with us as seamless as possible. We made very good progress against our strategy in 2018 which segments our operations into 'growth' and 'returns' focused

businesses. We are optimising the returns of our European home credit operations to invest in our growth businesses, Mexico home credit and IPF Digital, and deliver returns to our shareholders. We will continue to improve our service and effectiveness by investing in technology in both our home credit and digital businesses.

Our European home credit business is becoming more efficient and technologically enabled, the loan portfolio quality is excellent and it delivered very good operational and financial results this year. Our investments in growth opportunities in IPF Digital and Mexico home credit are now showing clear signs that they will deliver according to our plan, thereby creating a group with three pillars; a modernised European home credit delivering very good returns; a Mexican home credit business that combines ongoing growth potential with improved levels of profitability; and a global digital lending business that grows through constant innovation and delivers good returns.

Regulatory update

As previously reported, the National Bank of Romania introduced debt-to-income limits that became effective on 1 January 2019. The debate in Romania relating to a proposal for an APR cap of 18% for existing and new consumer lending has now been finalised. Following a full consultation, which included engagement with our trade association and banks to enable regulators and politicians to better understand the potential unintended impacts of the proposal on consumers and businesses, an APR cap of 50% for loans under €3,000 and 18% for loans over €3,000 was agreed. The vast majority of our Romanian lending will fall under the 50% cap. While aspects of the new cap are the subject of a constitutional court challenge, we nevertheless expect the new regulation to come into effect later in the year. Although the APR cap and new debt-to-income limits will have an effect on sales volumes and profitability in Romania, we do not expect this to be material at Group level.

On Monday 18 February, the Polish Ministry of Justice published a draft bill containing a modified set of proposals for a reduction in the cap on non-interest costs that may be charged by lenders in

connection with consumer loan agreements. The level of the current cap is as follows: (i) a flat level of 25% of the loan value; and (ii) an additional cap of 30% per annum; the combined total of both of which may not, in any event, exceed 100% of the loan value. The Ministry of Justice had previously published a draft bill in December 2016 under which the flat level cap and the additional per annum cap would have been reduced to 10% and 10% respectively, the combined total being limited to 75% of the loan value. As modified, the new proposal regarding non-interest costs is to reduce the flat level cap to 20% and the additional per annum cap to 25%, the combined total being limited to 75% of loan value. There is no proposal to reduce the current cap on interest charges. The proposals are open to public consultation for two weeks from the date of publication and if approved in their current form, could be effective during the second calendar quarter of 2019. Once the proposals are finalised, we will update the market with our assessment of the likely financial impact on the Group.

Outlook

We remain focused on serving our customers responsibly within a regulatory and competitive landscape that we expect will remain challenging. We will continue to focus on the sustainability of our European home credit businesses by investing to create a more modern, efficient and higher credit quality operation that provides a broader array of services to our customers. These businesses deliver good returns for shareholders and fund growth opportunities in our Mexico home credit and IPF Digital operations. In Mexico we will continue to invest in growing the scale of our operations through geographic expansion and micro-business lending in tandem with delivering progressive improvements in profit. In IPF Digital we will focus on continued portfolio growth, further reductions in impairment and as a result we expect to deliver a maiden profit for the division in 2019.

We are confident that our strategy will continue to support growth across the Group by successfully addressing the demands of our core stakeholders: meeting our customers' needs, creating value for our shareholders and contributing to the communities in which we operate.

EUROPEAN HOME CREDIT



Our European home credit businesses are the financial foundation of the Group providing excellent service to customers and generating the cash and capital needed to fund growth opportunities and returns to shareholders.

We continued to improve the sustainability of these businesses by creating more modern, efficient and better credit quality operations which resulted in a very good operational and financial performance in 2018.

Together, the European home credit businesses delivered a £1.5 million increase in profit before tax to £113.8 million driven by stronger-than-originally expected post-field collections. This robust performance reflects an improvement in like-for-like profit of £2.2 million with slightly lower net revenue more than offset by lower costs, partially impacted by a £0.7 million adverse effect from weaker FX rates.

Competition remained intense in Europe with payday, digital, home credit and bank operators competing to serve credit to our segment of customers. This, together with new debt-to-income regulations in Romania, resulted in customer numbers and credit issued growth contracting year-on-year by 12%. We responded with campaigns to increase new customer acquisition and improve retention which, as planned, delivered a 3ppt slower rate of contraction in the second half of the year compared to the first. Credit issued reduced by 5%, which led to a reduction in average net receivables and revenue of 4% and 5% respectively.

The credit quality of the loan portfolio in European home credit is very strong, driven primarily by better than originally expected post-field collections, supported by good agent collections and our focus on serving higher-quality customers. As a result, impairment as a percentage of revenue improved by 2.9ppts to 17.9%.

We are modernising our European home credit businesses to improve efficiency by investing in technology and we completed the roll-out of our agent mobile technology in this region which is now being used by more than 10,000 agents and field managers. As demand for digital loans has increased, we have evolved the business to offer Provident-branded digital loans to customers in Poland and around 22,000 people are using this channel. We delivered a reduction in costs during 2018 of £5.4 million (at CER) despite these investments in technology as we focused on delivering a sustainably lower cost base in these businesses. However, revenue contraction was slightly faster than the reduction in costs which resulted in a 1.3ppt increase in the cost-income ratio year on year to 40.9%. As planned, this ratio improved during the second half of the year as result of this optimisation strategy.

We will continue to operate our European home credit businesses in line with our strategy to enhance their sustainability, deliver a high-quality service to our customers and optimise returns. We aim to continue the momentum we achieved in the second half of 2018 and further reduce the rate of customer contraction, become more technically enabled with further functionality being added to the MyProvi mobile app, and improve cost-efficiency.

	2017 IFRS 9 £m	2018 IFRS 9 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	1,236	1,092	(144)	(11.7)	
Credit issued	797.0	757.8	(39.2)	(4.9)	(5.1)
Average net receivables	578.0	558.9	(19.1)	(3.3)	(3.7)
Revenue	519.9	493.3	(26.6)	(5.1)	(5.3)
Impairment	(108.3)	(88.5)	19.8	18.3	18.4
Net revenue	411.6	404.8	(6.8)	(1.7)	(1.9)
Finance costs	(36.6)	(35.3)	1.3	3.6	3.8
Agents' commission	(56.6)	(53.7)	2.9	5.1	5.5
Other costs	(206.1)	(202.0)	4.1	2.0	2.6
Profit before taxation	112.3	113.8	1.5	1.3	

MEXICO HOME CREDIT



Mexico is one of our two strategic investment areas for growth. We are taking advantage of the significant scale opportunity in this market by expanding our geographic footprint, building our micro-business channel and improving profitability in our established branches.

We opened five new branches in the second quarter of the year and are now serving over 100,000 customers in the 17 branches opened since the beginning of 2016. With an estimated four million individuals running micro-businesses in Mexico, the potential opportunity to generate growth by providing credit to customers who are underbanked is substantial, and we are now serving around 26,000 customers with this offering.

The Mexico home credit business continued to perform well and delivered a 22% (£2.8 million) improvement in profit before tax to £15.7 million in 2018. This comprises like-for-like profit growth of £5.9 million delivered by our established branches, offset partially by increased investment in future growth of £1.9 million through geographical expansion and our micro-business channel, together with a £1.2 million adverse impact from weaker FX rates.

Our strategy to attract new customers through investment in branch expansion and our micro-business loans channel were the key drivers of an 89,000 increase in customers to 917,000. This resulted in credit issued growth of 12% together with a 9% increase in both average net receivables and revenue.

Alongside delivering good growth, we maintained collections at an acceptable level and impairment as a percentage of revenue at 36.7%, which is slightly higher than 2017. In our established branches, where we have a balanced mix of new and repeat customers and stable operational teams, this impairment measure stands at 32.7% of revenue (2017: 34.4%). As newer branches and micro-business lending become more mature, their impairment measure is expected to reach that of the established branches. Our investment in growing Mexico home credit drove a 5% increase in our other costs which was driven by expansion and micro-business lending. Overall, the increase in investment was lower than the revenue growth generated, and together with good cost management, the cost-income ratio improved by 1.4ppts year on year to 38.7%.

Mexico offers significant opportunities for our home credit business and we will continue our successful strategy to expand our geographic footprint and micro-business loans channel to deliver further top-line growth. In addition, we will focus on driving further improvements in returns from our established branches.

	2017 IFRS 9 £m	2018 IFRS 9 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	828	917	89	10.7	
Credit issued	273.7	291.0	17.3	6.3	12.3
Average net receivables	150.6	154.9	4.3	2.9	8.5
Revenue	218.6	226.1	7.5	3.4	9.3
Impairment	(79.0)	(82.9)	(3.9)	(4.9)	(10.5)
Net revenue	139.6	143.2	3.6	2.6	8.6
Finance costs	(10.2)	(11.3)	(1.1)	(10.8)	(17.7)
Agents' commission	(28.9)	(28.8)	0.1	0.3	(5.5)
Other costs	(87.6)	(87.4)	0.2	0.2	(4.9)
Profit before taxation	12.9	15.7	2.8	21.7	
Established branches	17.2	22.4	5.2	30.2	
Expansion and micro-business	(4.3)	(6.7)	(2.4)	(55.8)	
Profit before taxation	12.9	15.7	2.8	21.7	

IPF DIGITAL



IPF Digital is a key strategic growth opportunity for the Group serving the increasing demand for digital credit within our target segment of consumers.

We delivered another year of very strong growth and made further progress against our strategic priorities of providing a great customer experience through innovation, building scale in our new markets of Poland, Spain, Australia and Mexico, and moving to profitability in 2019.

The growing demand for our revolving credit line product, which now accounts for 60% of our digital lending, demonstrates that we are achieving our stated goal of providing customers with the products they want through the channels they wish to use. Clearly this goal is a journey rather than an end point and we will continue to develop and improve our products and processes to make the customer journey as simple, fast and frictionless as possible.

In 2018, we focused on increasing scale in our new markets while improving our credit decisioning, the result of which was a reduction in start-up losses before tax to £5.6 million, which is a £10.7 million improvement on 2017. This result was driven by reduced losses

in our new markets where we delivered strong top-line growth, improved impairment and cost-leverage combined with improved profitability in the established markets.

	2017 IFRS 9 £m	2018 IFRS 9 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	226	292	66	29.2	
Credit issued	230.8	311.8	81.0	35.1	34.7
Average net receivables	148.5	209.6	61.1	41.1	40.7
Revenue	104.1	147.0	42.9	41.2	40.9
Impairment	(47.5)	(55.6)	(8.1)	(17.1)	(16.8)
Net revenue	56.6	91.4	34.8	61.5	61.2
Finance costs	(8.4)	(11.9)	(3.5)	(41.7)	(40.0)
Other costs	(64.5)	(85.1)	(20.6)	(31.9)	(32.6)
Profit before taxation	(16.3)	(5.6)	10.7	65.6	

Strong customer demand and effective marketing delivered a 35% increase in credit issued to £311.8 million, driven primarily by the strong performance in our new markets, but also good levels of growth in our established markets. This resulted in a 41% increase in both average net receivables and revenue.

Alongside this growth, we continued to improve our credit decisioning capabilities, evidenced by a 7.8ppt improvement in impairment as a percentage of revenue to 37.8%. We maintained good credit quality in our established markets and we made considerable improvements in the new markets by optimising our credit settings via constant testing and refinement of different credit strategies. In addition, increased scale and investment in technology has enabled us to better leverage our infrastructure and improve cost efficiency, delivering a 4.1ppt year-on-year reduction in the cost-income ratio to 57.9%.

The profitability of IPF Digital is segmented as follows:

	2017 IFRS 9 £m	2018 IFRS 9 £m	Change £m	Change %
Established markets	18.6	25.5	6.9	37.1
New markets	(25.2)	(17.8)	7.4	29.4
Head office costs	(9.7)	(13.3)	(3.6)	(37.1)
IPF Digital	(16.3)	(5.6)	10.7	65.6

Established markets

Our established markets delivered a £6.9 million improvement in profit before tax to £25.5 million driven by the benefits of scale and cost leverage. Smarter marketing, customer acquisition and CRM, combined with enhanced risk-based pricing strategies, resulted in a 15% increase in credit issued and a 23% increase in average net receivables. Revenue yield was stable at around 60% and, therefore, revenue growth was in-line with the increase in average net receivables.

Impairment as a percentage of revenue in these well-regulated markets was stable at 20.8%. This reflected a modest increase in underlying impairment as these markets continue to grow and serve new customers, offset partially by the benefit of non-recurring debt sale profits totalling £3.6 million. We continued to manage our cost base closely to improve efficiency, which resulted in an improvement in the cost-income ratio of around 3ppts to 38.1%.

	2017 IFRS 9 £m	2018 IFRS 9 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	141	157	16	11.3	
Credit issued	138.7	161.3	22.6	16.3	15.4
Average net receivables	105.7	130.9	25.2	23.8	22.9
Revenue	63.4	79.5	16.1	25.4	24.4
Impairment	(13.1)	(16.5)	(3.4)	(26.0)	(24.1)
Net revenue	50.3	63.0	12.7	25.2	24.5
Finance costs	(5.8)	(7.2)	(1.4)	(24.1)	(24.1)
Other costs	(25.9)	(30.3)	(4.4)	(17.0)	(16.1)
Profit before taxation	18.6	25.5	6.9	37.1	

New markets

Start-up losses in the new markets reduced by £7.4 million, driven by a combination of strong top-line growth together with improved impairment and cost-leverage. We continued to invest in building our digital brands, as well as improving our product and customer experience and enhancing risk-based pricing strategies to appeal to a wider range of customers. These factors delivered a 64% increase in credit issued, an increase in average net receivables of 85% and growth in revenue of 67%, with strong performances from all markets.

Another year of experience in these markets improved our ability to make good credit decisions and enhance our processes to optimise customer repayment behaviours. This delivered a significant 26.6ppt reduction in impairment as a percentage of revenue to 57.9%. Achieving such rapid improvement in credit quality at the same time as strong growth demonstrates our capabilities to continuously improve our credit settings and optimise our use of new technology and data sources. We expect we will continue to deliver positive impairment trends in these markets as they mature. Investment in growing these businesses – both marketing and volume-driven operational costs – resulted in increased costs to £41.5 million, however, economies of rapidly increasing scale resulted in a 9.5ppt improvement in the cost-income ratio to 61.5%, and we expect this trend to continue in the coming years.

	2017 IFRS 9 £m	2018 IFRS 9 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	85	135	50	58.8	
Credit issued	92.1	150.5	58.4	63.4	64.1
Average net receivables	42.8	78.7	35.9	83.9	85.2
Revenue	40.7	67.5	26.8	65.8	67.1
Impairment	(34.4)	(39.1)	(4.7)	(13.7)	(14.0)
Net revenue	6.3	28.4	22.1	350.8	365.6
Finance costs	(2.6)	(4.7)	(2.1)	(80.8)	(74.1)
Other costs	(28.9)	(41.5)	(12.6)	(43.6)	(46.1)
Loss before taxation	(25.2)	(17.8)	7.4	29.4	

IPF Digital as a whole represents a significant long-term growth opportunity for the Group and is making excellent progress against our strategy to build a large, profitable digital lending business. We are confident that we will deliver the division's maiden profit in 2019 as we continue to build scale, improve impairment in our new markets, and further leverage our cost base to drive greater efficiency.

OUR STAKEHOLDERS

Stakeholder engagement is a key component in our business success. We seek to establish and maintain relationships with the stakeholders that matter most to our business.

We engage with and listen to those who have an interest in our business in order to understand their needs and take account of their views. We use this information, where possible, to identify opportunities to improve our product offering to customers, develop our strategy, better manage risk and improve our operations. Our most important stakeholders are our customers, our investors, our people, regulators and our communities.

Code of ethics

Our code of ethics provides a road map for responsible, respectful and straightforward relationships with each of our stakeholder groups. Maintaining our standard of ethical behaviour and responsible lending is critical in differentiating our business. Our code of ethics applies to all employees, agents, contractors and suppliers – regardless of seniority, geography or culture. It commits us to uphold responsible business practices and meet or exceed

“Our priority is to sustain our business success in the long term, and meeting the needs of our stakeholders is an important part of that. Our relationship with our customers, in particular, is absolutely critical.”

Gerard Ryan
Chief Executive Officer

legal requirements in the way we conduct business. We have a range of support mechanisms and processes to highlight deviations from the code and to ensure the ongoing inclusion of ethical standards in our work. To ensure we all understand the part we play, we run ethics communications programmes, mandatory ethics e-learning and tests, ethical checks for key decision-making such as product development, and this year also launched our responsible lending principles, details of which are on page 5.

Non-financial information statement

Reporting requirement	Relevant policies	Description of our impact and principal risks	Page
Business model		Our business model	8
		Our social purpose	6
		Key performance indicators	24
		Principal risks and uncertainties	44
Employees	Code of ethics	Our people	34
	Group health and safety policy	Diversity	34
	Wellbeing policy	Equal opportunities	87
	Diversity policy	Safety risk	49
Human rights	Code of ethics	Values and ethics	3
	Modern slavery policy	UN Global Compact Communication on Progress	www.ipfin.co.uk
		Modern slavery statement	36
		Human rights	36
Social matters	Code of ethics	Our social purpose	6
		Reputation risk	48
		Our communities	36
		Community investment	36 and 88
		Environmental matters	88
Anti-bribery and corruption	Anti-bribery and corruption policy		87
Environmental matters	Group environment policy	Carbon reporting	89

OUR CUSTOMERS

Our home credit business model originated more than 130 years ago to provide affordable finance to underserved consumers, and our purpose of making a difference in the lives of our customers with straightforward home credit and digital channels is something we continue today.

We provide credit responsibly to those who may not be able to access it elsewhere and use credit bureaux as a key part of our credit decisioning process to enable customers to build a credit record over time. Lending to micro-businesses in Mexico also supports entrepreneurship and economic growth. We have close relationships with our home credit customers, and agents in our home credit business are in face-to-face contact with around two million customers each week. We listen to consumer views through customer surveys and by monitoring market trends, which helps us respond and improve the customer journey, for example digitising our home credit business with the MyProvi handheld mobile app and expanding into digital lending demonstrate how we have evolved to meet changing customer needs.

2m

home credit customer
visits every week



Customer service
excellence award,
Hungary



Product excellence award,
IPF Digital

Gloria – Mexico

Gloria has been a Provident customer in Cholula, Puebla for seven years and has taken a number of loans during that time to help her and her husband. Originally, after hearing a Provident Mexico advert on the radio and telephoning our call centre, Gloria was visited at home by her agent, Esperanza, who helped complete the application and they have had a good relationship ever since.

“The loans have helped us and little by little we have been able to get by. We work hard and one of our loans helped my husband buy a truck. Then we bought a trailer for his job. From there, we roofed our little house. Provident is a good company and, most importantly, the people who attend to us have been very nice, especially our agent. We have never had any problems and I am very happy with her.”



Małgorzata – Poland

Małgorzata lives in the Praga district of Warsaw and is one of our long-standing customers, having taken Provident home credit loans for 20 years. Małgorzata has used the loans for a wide variety of purchases, from renovating her family allotment and repairing the house roof to buying a new washing machine and sofa.

“We’ve always been lucky to have fantastic agents. They are very competent and always get back to us, delivering our loans and reminding us about anything. If it wasn’t for our Provident loans, we wouldn’t have been able to renovate our allotment or buy new equipment for our home.”



OUR PEOPLE

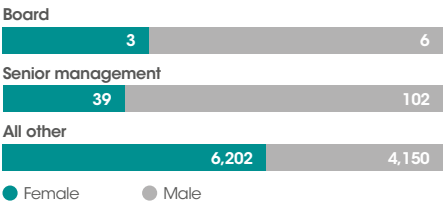
We benefit from a diverse agent and employee population of 28,000 people in 12 countries and depend on their skills, innovation and commitment to deliver an excellent customer experience. Our people strategy is aligned to our business strategy and we focus our attention on fundamentals including improving agent retention and delivering international development programmes.

As we digitise business practices, we are embracing the opportunities that technology offers to the way we work with our customers. The MyProvi handheld mobile app is supporting sales and collections, as well as providing management information to help us improve. We have also introduced an online learning hub accessible to all employees to deliver consistent learning and governance courses. Our Aspire Leadership Programme – a two-year commercial course to deliver our succession pipeline – provides an enriching development experience for current and future leaders. A collaborative global mindset is vital and during 2018 we launched two cultural change programmes which target process improvement and collaboration. In 2019, we will develop an IPF employee value proposition and extend our work on diversity, in all its forms, to ensure that our workforce reflects society.

Diversity

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

Gender split at 31 December 2018



[Read more about employees](#)
on pages 86 and 87

Aspire leadership programme

Viktoria Ruubel, IPF Digital

Viktoria, IPF Digital’s Global Head of Products, was nominated for the Aspire programme for her leadership potential and vision for digital lending.

“Joining Aspire has helped me reflect on myself as a leader. We consistently receive 360 degree feedback and you get to see a full picture of yourself. You also get to develop a much greater understanding of the Group, so not only do I have in-depth knowledge of digital lending but also see the different perspectives of home credit. I think about digital lending every day but I have a different level of discussion with my mentor, CEO Gerard Ryan – it is extremely helpful and impactful. I’ve been able to use this development when working with both the home credit and digital operations. It’s an amazing opportunity and enables me to look at product design in a very different and exciting way.”



Robert Pawlak, European home credit

Robert joined Provident 19 years ago and is one of the Group’s career success stories, having progressed from being a development manager in Poland to becoming European Sales and Service Performance Director and a key leader within the European home credit business.

“Aspire has given me the confidence to think like an investor and to look at business challenges and opportunities more widely than through my role alone. It has also made me realise not to underestimate my impact as a leader on my team. I have an obligation to act as a leader and role model every day and this development programme has helped me understand my influence much better. Bringing leaders together across the Group also supports a great deal of collaboration and best practice sharing not only within European home credit, but seeing the perspectives of IPF Digital and Mexico home credit is very powerful.”



OUR REGULATORS

Regulation with unintended consequences can have an impact on our ability to serve our customer segment. Our approach is to engage with regulators and the policy community so that regulatory changes deliver a sustainable outcome for both consumers and business.

We proactively engage with regulators and the policy community at EU and individual market level. We undertake this work directly and also with our trade associations in which we take an active role. This helps us to represent, and advocate, the benefits of a responsible and well-functioning non-banking credit market and to further engage with opinion leaders. We regularly have bilateral discussions and engage with politicians and regulators around topics such as responsible lending and financial inclusion. We look for opportunities to host and take part in events such as stakeholder roundtables and use thought leadership research, such as our twice-yearly Financial Wellbeing Report, to establish relationships with opinion leaders and champion the issues that are important to consumers in the credit market.



Warsaw Stock
Exchange award



Responsible lending award,
Czech Republic

[Read more about our strategy](#)
on pages 16-19

Stakeholder events – Romania

In Romania, where the National Bank of Romania introduced debt-to-income limits in January 2019 and an APR cap has been passed recently, we actively engaged with key decision-makers to ensure they fully considered the implications of these matters on the consumer finance segment. We arranged a series of multi-stakeholder events at national and local level to raise awareness of the role of non-banking financial institutions in a well-functioning credit market. We also presented an economic footprint study highlighting our contribution to the Romanian economy in the 12 years we have served customers in this market. The events were attended by representatives from the most relevant regulatory authorities to our business including the Romanian Parliament, the Central Bank, the Consumer Protection Authority and the Competition Council. Other events were organised under the umbrella of the UK Embassy in Romania and the British-Romanian Chamber of Commerce, leveraging our British heritage and consolidating our position as a key player in the British business community in Romania. This sustained engagement has been successful in promoting understanding of our role in accelerating financial inclusion for Romanian society, communicating our high standards of governance, and positioning Provident as a reliable dialogue partner for key decision-makers.



Viktor Boczan
Country Manager,
Romania

OUR COMMUNITIES

We are an active corporate citizen and, through our customers, agents and community investment programmes, we are closely connected to the communities we serve. We also tackle issues that are important to our employees, customers and opinion leaders including financial literacy, local development and enterprise initiatives.

As a financial company, it is important to support financial education, particularly promoting greater understanding of financial products and family budgeting. We have financial literacy programmes in all of our home credit markets and are starting to establish them in some of our digital markets using financial workshops, websites, blogs, vlogs and by helping to influence the school curriculum. We also have extensive employee volunteering opportunities, supporting local causes in most need while engaging our people.

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 at www.ipfin.co.uk.

Make a Difference in May – international volunteering event

In May, we held our first volunteering event engaging employees and agents in a global project to support our communities. More than 2,000 employees and agents volunteered on many different projects in eight markets from renovating childcare facilities for disadvantaged families and fitting new furniture and equipment in under-resourced schools, to organising recreational activities for disabled children and fundraising. Together, we logged over 5,600 volunteering hours – roughly equivalent to three and a half years of working time.

- **Poland:** 4,000 books collected to set up hospital libraries
- **Czech Republic:** events to support social or educational services to disadvantaged children
- **Hungary:** renovated schools and care facilities and collected 1,000 kg of clothing donations
- **Mexico:** 480 colleagues provided financial education workshops in local schools
- **Australia:** 'Australia's Biggest Morning Tea' raised funds for the Cancer Council
- **Spain:** a digital walkathon raised over €2,500 for humanitarian organisation, Caritas Spain

8

markets

2,000

employees
took part

5,600

volunteer hours donated
to local communities in
company time

98%

of volunteers said
their work made
a difference in
the community



Cash Crew

Our Cash Crew programme in the Czech Republic aims to assist young adults to navigate the adult world and deal with everyday financial situations, helping them to familiarise themselves with setting up a bank account, managing income and expenses, or finding a job.

Cash Crew engages with these young people in an accessible, simple and age-appropriate way, and consists of videos, blogs and online support at www.cashcrew.cz. We have seen a fantastic response to Cash Crew, reaching 1.2 million people and achieving 900,000 video views. The programme has been recognised by a number of awards and has received hundreds of positive comments from young people on social media about their experience with the video blog.



GOOD RETURNS AND A STRONG FINANCIAL PROFILE



“We aim to deliver long-term profitable growth and deploy capital efficiently, in order to develop and run businesses which provide good returns to shareholders, while maintaining a strong financial profile.”

Justin Lockwood
Chief Financial Officer

Our financial strategy

We aim to deliver long-term profitable growth and deploy capital efficiently, in order to develop and run 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.

Our financial model

We adopt a Group financial model which sets out key strategically-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 business is cash and capital generative and provides 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 business 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. By maintaining our strong financial profile, we are able to operate with good headroom on the financial covenants in our debt facilities.

Investor engagement to support financial strategy

We have a proactive investor engagement strategy for both equity and debt providers to support the financial strategy. A key element of our funding plan is to further diversify and extend our sources of debt funding to support the long-term growth of the business. In 2018 we researched a number of bond opportunities and identified the Nordic market as a way of accessing capacity from new debt investors. We undertook an extensive roadshow in Sweden and Norway involving myself, our IPF Digital General Manager, and our Group Treasurer, to explain our corporate strategy and the strength of our business model and financial profile. As a result, we successfully concluded our inaugural four-year Swedish Krona 450 million (\$40 million) 2022 bond. In addition, we continued our wide-ranging bank relationship management programme, and added £44 million of new bank funding during 2018 including facilities from new banks in Poland, Hungary and Romania.

 **For a reconciliation and glossary of the alternative performance measures that we use**
see pages 138-143

 **For our operational review of 2018 performance**
see pages 26-31

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, Mexico home credit and IPF Digital 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 business, and lower but growing returns on the Mexico home credit and IPF Digital 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

	2017 reported	2017 IFRS 9	2018 IFRS 9
European home credit	16.2%	18.3%	18.4%
Mexico home credit	10.3%	10.9%	12.0%
IPF Digital	(1.5%)	(3.8%)	2.1%
Group¹	11.5%	12.3%	12.5%

1. 2017 adjusted for exceptional tax charge

ROA in our European home credit businesses was broadly flat at 18.4% (on an IFRS 9 basis) in 2018, which reflects the combined impact of improved profitability and a lower investment in average net receivables. Returns improved in Mexico home credit by 1.1ppts to 12.0% (on an IFRS 9 basis) reflecting faster growth in profit than the increase in investment in average net receivables, despite increased strategic investment that is ROA dilutive in the short term. IPF Digital delivered a positive ROA for the first time reflecting the improving return dynamics of the business as profits in the established markets increased and start-up losses in the new markets reduced. The improvement in return was more rapid than the growth in average net receivables, which resulted in the improved ROA. ROA in all segments was impacted adversely by a 2ppt increase in the effective tax rate (2018: 31% and 2017: 29%). At Group level the ROA increased by 0.2ppts with improving returns from all reporting segments offset partially by an increased weighting to IPF Digital.

Return on equity

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

ROE declined by 0.7 ppts in 2018 (on an IFRS 9 basis) to 18.3%, this was principally driven by the 2ppt increase in the pre-exceptional effective tax rate.

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 £75.4 million compared to £69.0 million in 2017 (on an IFRS 9 basis) as a result of increased profit, partially offset by the 2ppt rise in effective tax rate. £27.5 million of this capital was used to invest in receivables growth (based on 40% equity funding for receivables growth) and, therefore, net capital generation was £47.9 million before the declaration of dividends totalling £27.7 million. Our European home credit businesses generated £88.3 million of capital which reflects their good financial performance together with a modest reduction in their investment in receivables. Mexico home credit generated only a small amount of capital due to the growth in the receivables portfolio in 2018. IPF Digital consumed £31.5 million driven by the significant investment in receivables alongside lower start-up losses. The other balance of capital consumption relates to central costs and included Slovakia and Lithuania in 2017. Total net capital generation was £20.2 million compared to £23.3 million (on an IFRS 9 basis) in 2017.

Capital generation from continuing operations

	2017 reported £m	2017 IFRS 9 £m	2018 IFRS 9 £m
Profit before tax	105.6	97.2	109.3
Pre-exceptional tax	(30.6)	(28.2)	(33.9)
Profit after pre-exceptional tax	75.0	69.0	75.4
Receivables growth funded by equity (40%)	(25.6)	(18.1)	(27.5)
Capital generated	49.4	50.9	47.9
European home credit	83.1	88.5	88.3
Mexico home credit	6.8	8.0	1.2
IPF Digital	(32.2)	(37.3)	(31.5)
Other	(8.3)	(8.3)	(10.1)
Dividends declared	(27.6)	(27.6)	(27.7)
Capital generated	21.8	23.3	20.2

Earnings per share

Pre-exceptional earnings per share was 33.8 pence in 2018 compared with 33.7 pence in 2017 (31.0 pence per share in 2017 under IFRS 9), reflecting the increase in profitability, offset partially 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 (2017: 12.4 pence per share). The final dividend will be paid on 10 May 2019 to shareholders on the register at the close of business on 12 April 2019. The shares will be marked ex-dividend on 11 April 2019.

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 provide a level of resilience to external shocks including macroeconomic, regulatory, and tax factors with 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 2018, the equity to receivables ratio was 43.6% (2017: 47.0% or 42.0% under IFRS 9) compared with our target level of 40%, meaning equity capital was £36 million above the target level. While the capital ratio is 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 1.6x at December 2018, compared to 1.7x in 2017 on an IFRS 9 basis (2017 IAS 39: 1.4x), well within the covenant level of 3.75x maximum (on an IAS 39 basis) in our debt facilities.

Group impairment as a percentage of revenue at 26.2% in 2018 was within our target range. The average period of receivables outstanding at December 2018 was 11.5 months (2017: 9.1 months) with 77.0% of year-end receivables due within one year (2017: 82.0%). 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 2018 were £992.8 million, which is £69.4 million (8%) higher than 2017 in constant currency terms, reflecting the growth in the business.

New accounting standards

IFRS 9 Financial Instruments

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

Implementation of the standard results in changes in the recognition of revenue and impairment and, as a consequence, the accounting value of the Group's receivables portfolio. The one-time reduction in the accounting value of receivables has been charged to equity in accordance with the transition rules of IFRS 9 and further details on this are set out on page 136 of this report. The ongoing impact on profit before tax of our reporting segments varies

according to the stage of development of a business. If a reporting segment's receivables portfolio is stable in terms of size and credit quality, IFRS 9 will not have a significant impact on net revenue generation. This is because for every new loan issued where impairment is booked on origination, there is another older loan that reports higher net revenue than under the current accounting standard. However, if a reporting segment's receivables portfolio is growing, net revenue and profit will be lower in the earlier months under IFRS 9. This is because impairment booked on originating loans will be larger than the benefit arising from lower impairment on the older loans, due to portfolio growth.

The profit before taxation impact that IFRS 9 would have had on our 2017 reporting is summarised below.

	2017 reported profit £m	IFRS 9 impact £m	2017 IFRS 9 profit £m
European home credit	114.3	(2.0)	112.3
Mexico home credit	14.7	(1.8)	12.9
IPF Digital	(11.7)	(4.6)	(16.3)
Central costs	(14.9)	–	(14.9)
Profit before taxation ongoing businesses	102.4	(8.4)	94.0
Slovakia and Lithuania	3.2	–	3.2
Profit before taxation from continuing operations	105.6	(8.4)	97.2

The total impact of IFRS 9 on the Group's net assets as at 1 January 2018 was as follows:

	Reported 1 January 2018 £m	Transitional impact £m	IFRS 9 1 January 2018 £m
Receivables	1,056.9	(130.5)	926.4
Deferred tax	93.0	23.1	116.1
Other net assets	(653.0)	–	(653.0)
Net assets	496.9	(107.4)	389.5
Equity % receivables	47.0%		42.0%

Opening net assets is stated after the one-time reduction in the accounting value of receivables at the start of the year arising from the implementation of IFRS 9 which totalled £130.5 million or 12.3% of the accounting value of the receivables portfolio under the old accounting standard. This impact has been charged to equity in accordance with the transitional rules included in IFRS 9. The impact of this reduction on net assets was partially mitigated by an increase in the deferred tax asset reflecting the fact that, under IFRS 9, net revenue is recorded more slowly in the Financial Statements than under the old accounting standard and hence the timing difference between the Financial Statements and the tax returns is larger.

In the Financial Statements included within this Annual Report, the Group has elected not to restate comparatives on initial application of IFRS 9 and, as such, 2017 comparatives are as previously reported.

 **For more information on the implementation of IFRS 9**
see pages 136-137

IFRS 16 Leases

IFRS 16 Leases is a new accounting standard which became effective from 1 January 2019. It distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability has to be recognised for all leases by lessees with some minor exceptions. The right-of-use asset is measured initially at cost and, subsequently, measured at cost less accumulated depreciation and impairment losses. The lease liability is measured initially 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. Our preliminary assessment indicates that there will be an increase in both assets and liabilities of around £22 million on the date of transition with no impact on net assets. The impact of the new standard on the profit and loss account in 2019 is not expected to be significant. More details are set out on page 102.

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, 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.

We further strengthened our debt funding position by adding £84 million of new funding in 2018. In June, we issued a Swedish Krona 450 million (£40 million) senior unsecured floating rate bond due in 2022 under our existing Euro Medium Term Note programme. This forms part of our funding strategy to support the long-term growth of the business by diversifying sources of debt funding, and extending the debt maturity profile beyond the main Eurobond maturity in 2021. In addition, we put in place £44 million of new bank funding including facilities provided by new banks in Romania, Poland, and Hungary.

At December 2018, we had total debt facilities of £886.0 million (£569.8 million bonds and £316.2 million bank facilities) and borrowings of £698.3 million, with headroom on undrawn debt facilities of £185.5 million. Of our committed funding, £177.0 million now extends beyond the Eurobond maturity in 2021, including £72.8 million in 2022/23. We repaid total bonds of £65.1 million which matured in 2018, and have one bond maturity in December 2019 of £15.4 million. Our balance sheet remains robust, with an equity to receivables capital ratio at December 2018 of 43.6% compared with 42.0% at December 2017.

	Maturity	£m
Bonds		
Euro	April 2021	370.9
Sterling	May 2020	101.5
Romanian	December 2019	15.4
Swedish	June 2022	40.0
Polish	June 2020	42.0
Total bonds		569.8
Bank facilities	2019-2023	316.2
Total debt facilities		886.0
Total borrowings		698.3
Headroom		185.5

We will continue our funding strategy of diversifying and extending debt facilities in addressing the material bond refinancing in 2020/21.

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 (£370.9 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 key financial covenants (which are prepared on an IAS39 basis) in our debt facilities, as set out in the table below.

Covenant compliance and other key metrics		2017	2018
Gearing*	Max 3.75	1.4x	1.3x
Interest cover	Min 2 times	3.1x	3.3x

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

Foreign exchange 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 an £8.7 million foreign exchange movement, which has been debited to the foreign exchange reserve.

Taxation

The taxation charge on profit for 2018 has been based on an effective tax rate of 31%. The taxation charge for the year on statutory pre-tax profit was £33.9 million (2017: £30.6 million on a pre-exceptional tax charge basis). As set out in our Q3 trading update on 18 October 2018, a draft law proposing amendments to existing tax legislation in Poland was submitted to Parliament and came into force on 1 January 2019. The main impact for our business is that certain cross-border transactions entered into by our Polish subsidiary are now economically inefficient. As a result of these changes, we expect the effective tax rate for the Group to be around 41% in 2019.

In January 2017, the Group's home credit company in Poland received adverse decisions on tax audits in respect of 2008 and 2009 and consequently was required to pay £36.1 million (comprising tax and associated interest) in order to lodge an appeal in the Polish courts. The court process was subsequently stayed while these decisions became subject to a process involving the UK and Polish tax authorities aimed at ensuring that an intra-group arrangement is taxed in accordance with international tax principles. The tax returns for 2010 to 2012 are currently subject to tax audits and all subsequent years remain open to audit. The total potential liability for all open years (2008 to 2018), if all years were assessed on the same basis as 2008 and 2009, would amount to around £169 million including the £36.1 million that has already been paid, and this is disclosed in the Financial Statements as a contingent liability. We 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 payment of the sum outlined above is not a reflection of our view on the merits of the case, and accordingly the £36.1 million already paid has 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. Further details are set out in note 30.

Summary of key financial statistics

	2017 reported	2017 IFRS 9	2018 IFRS 9
Revenue (£m)	825.8	842.6	866.4
Profit before tax (£m)	105.6	97.2	109.3
EBITDA (£m)	182.5	174.1	191.5
Cash generated from operating activities (£m)	143.6	143.6	141.6
Impairment as a percentage of revenue (%) ²	24.4%	27.9%	26.2%
Receivables (£m)	1,056.9	926.4	992.8
Equity (net assets) (£m)	496.9	389.5	433.0
Equity to receivables (%)	47.0%	42.0%	43.6%
ROA ¹ (%)	11.5%	12.3%	12.5%
ROE ¹ (%)	16.2%	19.0%	18.3%
Capital generated (£m)	21.8	23.3	20.2
Dividend paid (£m)	27.6	27.6	27.7
Dividend per share (pence)	12.4	12.4	12.4
Finance costs (£m)	55.2	55.2	58.5
Borrowings (£m)	677.7	677.7	698.3
Gearing (debt: equity multiple)	1.4x	1.7x	1.6x
Debt:EBITDA multiple	3.7x	3.9x	3.6x

1. 2017 Adjusted for exceptional tax charge

2. 2017 excluding Slovakia and Lithuania

Going concern

The Board has reviewed the budget for the year to 31 December 2019 and the forecasts for the two years to 31 December 2021, which include projected profits, cash flows, borrowings, headroom against debt facilities, and funding requirement.

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, funding, market and counterparty risks as outlined on pages 45 to 50 and the consequent impact on future performance, funding requirements and covenant compliance. Consideration has also been given to multiple risks materialising concurrently and the availability of mitigating actions that could be taken to reduce the impact of the identified risks.

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 45 and 46, 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 and Financial Statements.

CEO GERARD RYAN REVIEWS RISK MANAGEMENT



“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

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.

Q. What were the key risk focus areas in 2018?

We continued to operate within a challenging external environment with regulatory risk remaining a priority for our Board, alongside competition and tax. In Romania, debt-to-income legislation introduced by the National Bank in Romania came into effect on 1 January 2019 and an APR cap was also passed and is expected to come into effect in 2019. In February 2019, the Polish Ministry of Justice published a draft bill containing a modified set of proposals for a reduction in the cap on non-interest costs that may be charged by lenders in connection with consumer loan agreements. The tax audit appeals in Poland are pending a resolution of a process between the Polish and UK tax authorities. The European home credit business continues to face intense competition which

has impacted customer acquisition. Details of these matters are outlined in my CEO review on pages 20 to 23 and our Principal risks, later in this section.

Q. Did the principal risks change in 2018?

Yes. With the introduction of GDPR regulation in our European operations, greater emphasis was given to this matter by treating it as a specific risk under our risk management framework. This decision was taken in order to better identify, evaluate and mitigate any risks related to non-compliance with data privacy regulations.

Q. What are the key risks expected to be in 2019?

We expect regulation, competition, tax and funding to continue to be key focus areas over the year ahead. All of our principal risks will be monitored and managed closely, all of which are included on pages 45 to 50.

Q. How are risks identified at IPF? Did this change in 2018?

We identify new, developing 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 43.

Internally, we are enhancing the risk management process across our business, maintaining emphasis on the ability to identify and evaluate developing risks. This includes periodic review and adjustment, as necessary, of our risk assessment methodology across the Group.

Q. How is risk evaluated at IPF?

We evaluate each risk at least quarterly based on the likelihood and potential financial impact 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 fit within our Board-approved 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?

The principal risks to our strategy are identified, evaluated and managed at Group level in accordance with our operational governance and oversight structure. 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 2018?

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 to bring the risks back within our approved level. Progress against these action plans is monitored by the Board through the Audit and Risk Committee.

The setting of risk 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 our markets generate 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 and our risk appetite remained broadly unchanged in 2018.

Q. How are you managing Brexit?

In July 2016, a month after the Brexit referendum, the Audit and Risk Committee identified areas where Brexit could potentially have a impact on IPF and agreed high-level actions to monitor and mitigate those impacts using the existing risk management governance structure. Following continuing uncertainty regarding the basis upon which the UK would be leaving the EU and transition arrangements, the IPF Board decided to set up a full project management structure to apply a co-ordinated approach to the identified risks in the event of the UK leaving the EU without a deal, to gain external legal assurance on the planning work to address those risks, and to ensure that proper contingency arrangements were being adopted wherever possible. As IPF's European operations are all within the EU, we continue to believe that there will not be significant operational disruption. Our contingency planning remains focused on the areas of people, data, and cross-border corporate structures; and we believe that we have robust plans in place to address the risks.

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 16 to 17) and target business model (as described on pages 8 to 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 the 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 reviewed 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 60 for Committee membership and remit.

Risk Advisory Group

The Risk Advisory Group comprises members of the Senior Management Group. 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 of and oversight to the systems of internal control, including risk management. The Group 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 50.

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* • GDPR* <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 <p>World economic environment*</p> <p>Taxation*</p>	<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 • Lack of people capability • 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

As at the year end, the Board considered that there are 17 principal risks which require ongoing focus (noted with asterisks in the table on page 44).




Risk	Relevance to strategy	Mitigation	Commentary
1. Regulatory 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 (including GDPR), or due to a regulator interpreting these in a different way. 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.	Impact Changes in regulation, differences in interpretation or clarification of regulation, or changes in the enforcement of laws by regulators, courts or other bodies can lead to challenge of our products and/or practices. We monitor legal and regulatory developments to ensure we maintain compliance, remain competitive and provide value for our customers. Likelihood The likelihood of legal and regulatory change and the impact of challenge vary by market. In 2018, in addition to the implementation of the GDPR across the EU, notable changes occurred in Romania in terms of the debt-to-income regulation and in Poland's tax legislation. We also expect pricing regulations to be implemented at some point in the future in those markets where there are no price caps currently.	We have highly skilled and experienced legal and public affairs teams at Group level and in each of our markets. Expert third-party advisors are used where necessary. We engage with regulators, legislators and other stakeholders. The strategy of strengthening relevant sector associations contributes to our monitoring, as well as influencing capabilities. See page 35 for details of a recent stakeholder event in Romania. Co-ordinated legal and public affairs teams, at a Group level and in each market, monitor political, legislative and regulatory developments. Compliance programme focused on key consumer legislation including in relation to data privacy.	Lead responsibility: Chief Executive Officer See CEO's review on pages 20 to 23 for more information. In Romania, new debt-to-income regulations impacted performance in 2018. Further debt-to-income regulations were introduced on 1 January 2019 and an APR cap was passed, which is expected to come into effect in 2019. Although the APR cap and new debt-to-income limits will have an effect on sales volumes and profitability in Romania, we do not expect the impact to be material at Group level. In February 2019, the Polish Ministry of Justice published a draft bill containing a modified set of proposals for a reduction in the cap on non-interest costs that may be charged by lenders in connection with consumer loan agreements. The proposals are open to public consultation and if approved in their current form, could be effective during the second quarter of 2019. Once the proposals are finalised, we will update the market with our assessment of the likely financial impact on the Group. Customer contraction in our European home credit businesses is due partially to regulatory changes. We continued to engage with regulators, politicians and other stakeholders, participating in trade associations and informing our stakeholders about the role our services play in society and the economy.
2. Competition and product proposition 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. Objective We aim to ensure we understand competitive threats and deliver customer-focused products to drive profitable growth.	Impact In an environment of increasing competition and broadening customer choice, ensuring our product meets customers' needs is critical to delivering profitable growth. Likelihood Competition varies by market and is likely to remain at a high level, particularly in Europe.	Regular monitoring of competitors and their offerings, advertising and share of voice in our markets. Regular surveys of customer views on our product offerings. Product development committees established across the Group to review the product development roadmap, manage product change and introduce new products.	Lead responsibility: Chief Executive Officer Customer contraction in European home credit was partly due to more intense competitive pressure, particularly from digital lenders and banks as they enhanced their customer propositions to meet demand for digital consumer credit. In response, we are offering larger loans at more attractive prices to our best quality home credit customers. In Mexico, competition is stable and digital lending remains small-scale. Diversification into digital lending enables us to offer further product choices to customers in our target segment. We intend to introduce digital propositions in all our home credit markets.
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
3. Taxation 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. Objective 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.	 Impact 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. Likelihood 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.	Binding rulings or clearances obtained from authorities where appropriate. External advisors used for all material tax transactions. Qualified and experienced tax teams at Group level and in-market.	 Lead responsibility: Chief Financial Officer We have ongoing tax audits in Poland, Mexico and Slovakia. In January 2017, Poland received adverse decisions on tax audits in respect of 2008 and 2009 and was required to pay £36.1 million (comprising tax and associated interest) in order to lodge appeals. The court process has been stayed pending resolution of a process involving the UK and Polish tax authorities aimed at ensuring that an intra-group arrangement is taxed in accordance with international tax principles. The tax returns for 2010 to 2012 are subject to tax audits and all subsequent years remain open to audit. The total potential liability for all open years (2008 to 2018), if all were assessed as 2008 and 2009, would be around £169 million including the £36.1 million already paid. This is disclosed in the Financial Statements as a contingent liability. The payment of the £36.1 million is not a reflection of our view on the merits of the case, and accordingly has been recognised as a non-current financial asset in these Financial Statements. Following legislative change in Poland, effective from 1 January 2019, we expect the effective tax rate for the Group to be around 41% in 2019. Further detail on tax matters is included in the CEO's review on page 22 and the Financial review on page 41.
4. Technology and change management 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. Objective 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. We look to maintain systems that are available to support the ongoing operations in the business.	 Impact A core part of our strategy is to modernise our home credit operation and invest in digital developments. Effective management of the initiatives within this programme is essential. The Group is currently undergoing a large change agenda which carries significant levels of inherent risk. Failure to deliver programmes or maintain our IT estate could lead to issues in benefits realisation or business disruption. Likelihood Our change programme is complex, covering numerous markets. As such there is a level of risk associated with its delivery. Unforeseen outages can happen against key systems as a result of change or failures in technology.	Appropriate methods and resources used in the delivery of programs. Programs are continually reviewed with strong governance of all major delivery activity. Ongoing reviews of our services and relationships with partners ensure we maintain effective service operations. Annual review undertaken to prioritise investment required in underlying technology ensures appropriateness of the underlying technology estate.	 Lead responsibility: Chief Executive Officer Effective oversight of the technology deliveries within the portfolio is ensured through the operation of a governance framework which supports the achievement of our strategic objectives, and through a prioritisation process that objectively identifies the priority technology and change initiatives.

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.	 Impact In order to achieve our strategic goals, we must continue to attract, engage, develop, retain and reward the right people. The very nature of people risk means that it is often difficult to reduce the frequency with which risks occur; however, our controls are aimed at lowering the impact of any risks. The Group's largest people-related risk relates to turnover in our agent population. Progress has been made this year in reducing this closer to our appetite level, with further work ongoing throughout 2019. Likelihood Our people, organisation and planning processes ensure that we develop appropriate and significant strength and depth of talent across the Group and that we have the ability to move people between countries, which reduces our exposure to critical roles being underresourced. During 2019, we will continue to develop, resource, retain and reward the right people.	The HR control environment is in place to mitigate the people risks for the Group. This identifies the key people risks and also the key controls that we have in place to mitigate them. The key people risks and commensurate controls cover: <ul style="list-style-type: none"> • Critical skills shortage • Lack of succession to critical roles • Recruitment risks • Appropriate distribution of strategy-aligned objectives • Monitoring and action with regards to key people risks and issues • Key people processes • Appropriate use of reward and compliance with delegated authority from the Remuneration Committee 	 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. Expanding our Mexico home credit business in 2018 required an increase in the number of agents and key employees to meet these investment plans.

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.	 Impact 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. There is periodic testing and ongoing monitoring of security and recovery capability for technology and premises.	 Lead responsibility: Chief Executive Officer During 2018, we performed a number of tests of our information security and continue to work towards further improvement. 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. In 2018, we further strengthened our internal defences with the implementation of enhanced cyber security tools.
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-  Growth focus – IPF Digital
-  Growth focus – Mexico home credit
-  Returns focus – European home credit

-  Risk environment improving
-  Risk environment remains stable
-  Risk environment worsening

Risk	Relevance to strategy	Mitigation	Commentary
7. Reputation We suffer financial or reputational damage due to our methods of operation, ill-informed comment or malpractice. 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.	 Impact Our reputation can have an effect on both customer sentiment and the engagement of key stakeholders, impacting our ability to operate and serve our customer segment. Elements of this risk relate to external factors that are beyond our influence. Controls in place have reduced residual risk. There is now limited ability to further reduce this significantly. 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.	Clearly defined corporate values and ethical standards are communicated throughout the organisation and employees and agents are mandated to undertake annual ethics e-learning. Regular monitoring of key reputation drivers.	 Lead responsibility: Chief Executive Officer Our home credit and digital businesses have received a number of industry awards for the way we conduct our business. We have been recognised for our responsible lending practices, as a top employer and for being a socially responsible business. We take a proactive approach to reputation management and update the market on material challenges that we are required to disclose.
8. World economic environment We suffer financial loss as a result of a failure to identify and adapt to changing economic conditions adequately. Objective We aim to have business processes that allow us to respond to changes in economic conditions and optimise business performance.	 Impact Changes in economic conditions have a direct impact on our customers' ability to make repayments. This risk is led entirely by external factors that are not controllable and is driven by the business model and in particular the specifics of the markets where we operate. 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.	Treasury committees review economic indicators. Monitoring of economic, political and national news briefings. Strong, personal customer relationships inform us of individual customer circumstances.	 Lead responsibility: Chief Financial Officer There were reasonably stable macroeconomic conditions in all our European markets in 2018. Current indicators suggest our markets will deliver positive GDP growth, low unemployment and moderately increasing inflation in 2019. In Mexico, political change resulted in some uncertainty in 2018 but positive GDP growth is forecast in 2019 and 2020. We have taken a coordinated approach to the risks identified in the event of the UK leaving the EU without a deal and robust plans are in place to address these risks. As our European operations are all within the EU, we continue to believe that there will not be significant operational disruption. See page 43 for additional detail. We continue to monitor other geopolitical events on financial markets and macroeconomic conditions.

Risk	Relevance to strategy	Mitigation	Commentary
9. Safety The risk of personal injury or harm to our agents or employees. Objective We aim to maintain adequate arrangements and controls that reduce the risks to as low as is reasonably practicable.	<p>1 2 3</p> <p>Impact 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 while performing their role is paramount to us.</p> <p>Likelihood Safety risks typically arise from the behaviour of individuals both internal and external to the business and therefore the ability to remove the risk entirely is not possible with the current business model, working with 21,000 agents, however, improvements are constantly sought to reduce the risk where possible.</p>	<p>Safety management systems based on internationally recognised standards.</p> <p>Market safety committees and annual safety survey.</p> <p>Bi-annual risk assessment for each agency including mitigation planning and field safety training.</p> <p>Annual self-certification of safety compliance by managers.</p> <p>Regular branch safety meetings and safety awareness campaigns.</p> <p>Role-specific training and competence matrix.</p>	<p>Lead responsibility: Chief Executive Officer</p> <p>We continued to make progress in our safety management systems, and our home credit businesses either maintained their Occupational Health and Safety Assessment Series (OHSAS) certification or are now working towards the new standard that replaced OHSAS in 2018 (ISO 45001 Occupational Health and Safety Management Standard).</p> <p>Safety continues to be a significant area of focus for the Group.</p>

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.	<p>1 2 3</p> <p>Impact 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. The nature of the business is such that the financial impact of credit risk, even at appetite levels, is substantial. Reducing credit risk further could result in reduced revenue and increased cost ratios. For new businesses, credit risk is higher due to the lack of historical data our credit scorecards rely upon to make adequate lending decisions.</p> <p>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.</p>	<p>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.</p> <p>When a change is introduced, the credit systems allow for a testing approach that gives direct comparison of the current 'champion' regime against the new 'challenger'.</p>	<p>Lead responsibility: Chief Executive Officer</p> <p>Overall, credit quality was well managed and Group impairment as a percentage of revenue improved.</p> <p>The credit quality of the European home credit portfolios was very good in 2018, driven mainly by good collections made by agents and strong post-field collections.</p> <p>Our Mexico home credit business maintained adequate collections while delivering growth, and impairment as a percentage of revenue for 2018 was slightly higher than 2017.</p> <p>The credit risk environment in our established IPF Digital markets is generally stable. In our new markets, impairment as a percentage of revenue improved by 26.6ppts as we delivered improved credit settings and built scale. This resulted in a significant improvement in impairment as a percentage of revenue for IPF Digital as a whole.</p>
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- 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
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.	 Impact Funding at appropriate cost and on appropriate terms, and management of financial market risk, are 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 robust funding position with good headroom on undrawn bank facilities. We have continued to execute our strategy of diversifying the sources of funding and extending the maturity profile. In 2018, we transacted a four-year Swedish Krona 450 million (£40 million) floating rate bond and have added £44 million of new bank facilities. We will continue this strategy in addressing the material bond refinancing in 2020/21. The good level of headroom on bank facilities gives us significant flexibility on timing. Hedging of market risk and limits on counterparty risk are in line with Board-approved policies. Further information on our funding position is included in the Financial review on pages 37 to 41.

Viability statement

The Directors have assessed the long-term prospects of the business and taken into account:

- the historic resilience of the IPF business model over a long period including times of adverse macroeconomic conditions and a changing competitive and regulatory environment;
- the beneficial portfolio effect of operating across a number of different jurisdictions which mitigates concentration risk;
- IPF's multi-channel strategy and strategic priorities, and assessment of performance against key performance indicators each of which is linked to long-term strategy;
- risk appetite, principal risks and risk management processes as set out in the Principal Risks table on pages 44 to 50; and
- that IPF provides access to regulated credit in a responsible, transparent and ethical manner, for people who might otherwise be excluded from mainstream credit operators, acknowledging that it is possible to regulate away the supply of credit but not the demand.

A thorough top-down and bottom-up risk assessment process takes place with risk appetites assigned to each of the risks, and performance against those appetites monitored on a regular basis at Country and Board level. This includes a regulatory risk radar process.

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 and has adequate long-term prospects. 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, funding, market and counterparty risks as outlined on pages 45 to 50 and the consequent impact on future performance, funding requirements and covenant compliance. Consideration has also been given to multiple risks materialising concurrently and 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 the viability statement because it aligns to the key period of the planning process, and reflects the relatively short term nature of our business and the ability to change products, adjust credit risk in the receivables book and flex our business model. 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

27 February 2019



"The Board has a vital role to play in defining our behaviours and how we grow the business."

Dan O'Connor
Chairman

Dear Shareholder,

We are committed to being a responsible, purpose-driven business which delivers great service to our customers and creates value for our stakeholders, notwithstanding challenging market and regulatory conditions. Good governance is essential to support our strategic priorities and the Board has a vital role to play in defining our behaviours and how we grow the business. We describe how we have complied with the UK Corporate Governance Code on pages 82 to 83.

Q. How does the Board ensure that it has the right mix of skills and experience to deliver its strategic objectives?

As Chairman of the Nomination Committee, I have sought to expand the experience and diversity of the Board. I am delighted that Deborah Davis and Bronwyn Syiek accepted our invitation to join the Board as non-executive directors in October 2018. Their expertise, experience and perspectives are already valued additions to the Board. Following a rigorous selection process to find the right individual to take over the role of senior independent director, I am pleased that Richard Moat has agreed to take up this position at the conclusion of the AGM (subject to his re-election). His skills, knowledge and experience make him a worthy successor to Tony Hales, whose contribution to the Board and the Group's businesses has been invaluable.

We assessed the skills and experience of the Board in our annual Board evaluation which are summarised on page 57, and concluded that the Board is operating effectively.

Q. What were the areas of focus for delivering the strategy in 2018?

It is our responsibility to provide strategic oversight of management and their direction of travel, while promoting stability and growth for our shareholders and other stakeholders. Our Board meeting agendas are focussed on strategic priorities and monitoring activities. We held a Board session where we appraised our performance against our current strategy and discussed our long-term strategy and opportunities to accelerate our performance in each of our markets in a sustainable way.

Q. What role does the Board play in business ethics?

Our businesses provide small-sum, unsecured consumer loans and lines to customers who are underbanked and underserved by mainstream credit operators and it's vital we lend responsibly. We have a strong ethical culture embedded throughout the Group and it is the Board's role to ensure this continues to be the case. We also make sure that our performance management and reward system help to support and encourage the right behaviours. Employees and agents are required to complete ethics training.

Q. What are the key focus areas for the Board in 2019?

Our focus will be on monitoring our operational and financial performance and our strategic priorities. This includes optimising our European home credit business to continue to generate high levels of returns to fund growth in our home credit business in Mexico, and to deliver a maiden profit for our IPF Digital business. We will also be increasing our focus on technology development and deployment to improve the customer experience, customer retention and profitability. The Board's 2019 objectives are on page 55.

Q. What engagement has the Board had with its shareholders and stakeholders?

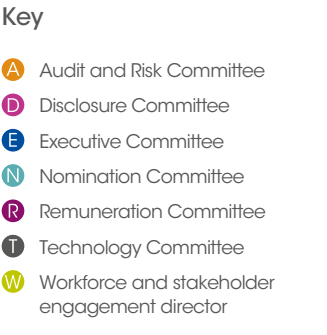
Our investor relations programme focuses on maintaining good relationships with our major shareholders, keeping them informed of progress. Together with my fellow Board members Tony Hales and Richard Moat, I hosted our annual lunch for investors when we discussed the progress we are making and explored their priorities as shareholders. Gerard Ryan and Justin Lockwood, our CEO and CFO respectively, undertook two investor roadshows, and a series of investor conferences, and all the presentations, webcasts and conference calls undertaken are accessible via our website.

I visited Madrid where I spent two days with our digital team and, together with our CEO, I visited our businesses in Mexico to gain greater insight into our operations and the customers we serve and I also visited our IPF Digital team in Estonia. We held a Board meeting in Poland where we were briefed by the IPF Digital and Poland home credit management teams on business performance as well as tax and regulatory issues. We also spent time with the local functional and operational leadership teams in the markets. Other Board members regularly visit our operations and receive one-on-one updates from the teams.

Taking the right decisions and ensuring that we do the right thing by our stakeholders are already recognised facets of our corporate culture. We are considering ways in which more meaningful engagement can take place between the Board, our employees and wider society and appointed Bronwyn Syiek, as the Board's workforce and stakeholder engagement director to help us succeed in this objective.

I look forward to meeting shareholders at our AGM on 2 May 2019.

OUR BOARD AND COMMITTEES



- Key
- A Audit and Risk Committee
 - D Disclosure Committee
 - E Executive Committee
 - N Nomination Committee
 - R Remuneration Committee
 - T Technology Committee
 - W Workforce and stakeholder engagement director

1. Dan O'Connor N (Chair) R

Chairman
Length of service: 4 years and 2 months

Appointments and qualifications: Dan was previously a non-executive director of CRH plc and Chairman of Allied Irish Banks plc. 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, promoting an effective Board by facilitating open and robust debate. He is committed to strong corporate governance and has regular constructive engagement with investors and other stakeholders.

2. Gerard Ryan D E N

Executive director and Chief Executive Officer
Length of service: 7 years and 1 month

Appointments and qualifications: Gerard was previously CEO for Citigroup's consumer finance businesses in 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. His acute market insight provides a real advantage in driving the implementation of the strategy, and identifying and pursuing growth opportunities for our business.

3. Justin Lockwood D E

Executive director and Chief Financial Officer
Length of service: 2 years

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, which, allied with a broad and deep understanding of the Group's operations, enables him to be particularly effective in supporting the Board and the Executive Committee in driving optimum financial performance.

4. Tony Hales CBE

A N R

Senior independent non-executive director

Length of service: 11 years and 7 months

Appointments and qualifications: Tony was Chairman of Canal & River Trust, Workspace Group plc and NAAFI, Chief Executive of Allied Domecq plc. He was previously a director of Welsh National Opera Limited 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 and the Associated Board of the Royal Schools of Music. He is also a non-executive director of Capital & Regional plc, a board member of The Services Sound and Vision Corporation 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. Deborah Davis

A N R

Independent non-executive director

Length of service: 4 months

Appointments and qualifications: Deborah is currently a non-executive director of The Institute of Directors and Which? Limited in the UK, IDEX Biometrics in Norway, and is a Trustee of Southern African Conservation Trust in South Africa. Deborah was previously Vice President of Global Partnerships, and Vice President of Global Risk Operations at PayPal based in London and Vice President of European Operations for eBay Marketplaces based in Germany.

Key strengths and contributions: Deborah has wide ranging non-executive director experience in fintech, consumer and technology businesses undergoing digital transformation, growth and geographic expansion. Her experience provides the Board with valuable strategic and operational insights on growth and expansion of the digital business as well as customer experience and innovation throughout the Company.

6. Richard Moat

A (Chair) R T

Independent non-executive director

Length of service: 6 years and 8 months

Appointments and qualifications: Richard is a non-executive director of Eir Limited, having previously served as Chief Executive Officer until April 2018. He was 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 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.

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

7. John Mangelaars

N T (Chair)

Independent non-executive director

Length of service: 3 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 (BICT) 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

N R (Chair) T

Independent non-executive director

Length of service: 5 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, and 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 a non-executive director of Chubb European Group SE, Chubb European Group plc, AA plc, Chubb Underwriting Agencies Ltd, The Equitable Life Assurance Society and AA Insurance Holdings Limited.

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.

9. Bronwyn Syiek

A W T

Independent non-executive director

Length of service: 4 months

Appointments and qualifications: Bronwyn is currently a Trustee of The SETI Institute, a US-based non-profit scientific research institute and significant contractor to NASA. Bronwyn was previously the executive president and a board member of QuinStreet Inc., having been its Chief Operating Officer. A NASDAQ-listed company, QuinStreet is a leader in online performance marketing products and technologies, serving a number of sectors including financial services. Bronwyn also served on the management committee of De La Rue, a major European provider of online and offline security products and services, and before that was a consultant with McKinsey & Company, Inc.

Key strengths and contributions: Bronwyn has 15 years' general management experience in high growth businesses in Silicon Valley, including executive director experience in online consumer marketing and technology development. She also brings experience as a non-executive director gained in non-profit scientific research organisation and education, and 14 years' experience as a banker, consultant, focused on strategy and change in large international companies. Her contribution to Board discussions is extremely helpful, particularly given her knowledge of online marketing and technology, promoting the right balance for the Board between guidance and oversight.

The Board

Role of the Board

The Board is ultimately responsible to its stakeholders for the direction, management, performance and long-term success of the Company. It sets the Group's strategy and objectives, and oversees and monitors internal controls, risk management, principal risks, governance and the viability of the Company. In doing so, the directors comply with their duties under section 172 of the Companies Act 2006.

The Board has established certain principal committees to assist it in fulfilling its oversight responsibilities, providing dedicated focus on particular areas, as set out below. Each committee chairman reports to the Board on the committee's activities after each meeting.

Key matters reserved to the Board

- Group strategy and determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives
- Overall corporate governance arrangements including Board and committee composition, terms of reference of committees, director independence and conflicts of interest
- Approval of the Annual Report and Financial Statements and regulatory announcements
- Approval of annual budgets and significant project expenditure
- New accounting policies or significant changes to existing ones
- Policy on remuneration of directors
- Tax planning proposals relating to the corporate structure

Board committees and their reserved matters

Nomination Committee

- Review structure, size and composition of the Board and its committees
- Review annually the succession plan
- Assist in the process of selection and appointment of a new director

Audit and Risk Committee

- Monitor integrity of the Financial Statements and provide advice to the Board on whether they are fair, balanced and understandable
- Review effectiveness of internal controls and review principal risks
- Appoint and evaluate the external auditor and their independence
- Review and monitor effectiveness of internal audit function

Remuneration Committee

- Approve all aspects of remuneration policy and make recommendations to the Board
- Determine the remuneration packages of the executive directors, the Chairman, the Company Secretary and the Senior Management Group
- Agree and review policy for authorisation of expenses claimed by executive directors

Technology Committee

- Oversee IT strategy and delivery
- Oversee key IT risks and ensure any issues are escalated to the Board
- Assure IT deliverables and cost control

Executive Committee

- Manage the Group generally, other than on matters reserved to the Board and its committees
- Set and communicate the strategy and ensure that the financial plan supports this strategy
- Monitor operational and financial performance

Disclosure Committee

- Assist in design and evaluation of disclosure controls and procedures
- Review requirement for, and content of, regulatory announcements
- Monitor compliance with disclosure controls and procedures

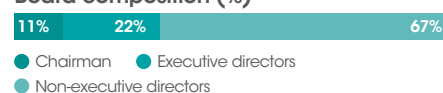
Board and committee members' attendance at meetings in 2018

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Technology Committee
Jayne Almond ¹	2/3	2/3		2/4	
Deborah Davis (appointed 18 October 2018)	1/1				
Tony Hales ²	7/8	7/7	4/4	6/6	
Justin Lockwood	8/8				
John Mangelaars ³	7/8		4/4		4/4
Richard Moat	8/8	7/7		6/6	4/4
Dan O'Connor	8/8		4/4		
Cathryn Riley	8/8		4/4	6/6	4/4
Gerard Ryan	8/8				
Bronwyn Syiek (appointed 18 October 2018)	1/1				

1. Jayne Almond stepped down as a director from the Board at the 2018 AGM. She was unable to attend the Audit and Risk Committee and Remuneration Committee in February and the Board and Remuneration Committee meetings in May due to prior commitments.
2. Tony Hales was unable to attend the unscheduled meeting in July due to a prior commitment and because the meeting was arranged at short notice.
3. John Mangelaars was unable to attend the Board meeting in January due to a prior commitment.

The Board was supported by its committees in progressing its objectives during the year.

Board composition (%)



Board tenure (%)



Board diversity (%)



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 respect of leadership, development and succession planning
- Continue to monitor the development of, 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

2018 progress

- Monitored progress of the management of regulatory matters
- Provided effective oversight of tax matters in Poland
- Monitored the implementation of the Group's technology strategy with the assistance of the Technology Committee. Completed roll-out of MyProvi agent technology app across our European home credit markets in 2018. IPF's Digital platform was adopted as the strategic digital platform for the Group
- New products under development
- Effective monitoring and management challenge promoting credit growth and improving profitability
- Continued development of the control framework and its monitoring with assistance from the Audit and Risk Committee
- Supported management with the new people strategy, changes having been made to leadership in some of our markets to improve performance
- Financial performance in 2018 was ahead of our original expectations and good returns were generated
- Further strengthened the funding position with good headroom on debt facilities

2019 objectives

- Support the development of new products and channels to meet customer needs in a responsible and ethical manner
- Monitor the operational and financial performance of the Group's businesses, including:
 - continued performance improvement and profitable growth in Mexico;
 - delivering a maiden profit in IPF Digital in 2019; and
 - continued evolution of our European home credit business, generating high levels of returns to fund our growth opportunities
- Continue to monitor the Group's compliance with existing legislative and regulatory standards, and its mitigation planning for possible new regulation and consideration of the potential impact
- Monitor the strength of the Group's balance sheet and the development of our longer-term funding strategy, incorporating the potential impacts of tax audits on the Polish business
- Continue to support the Group's people strategy in respect of leadership, development and succession planning
- Support the development and/or deployment of technology across the business with emphasis on the customer experience, customer retention and profitability
- Consider the needs and views of all stakeholders in the Group's businesses, including, in addition to the Company's shareholders, our employees and agents, customers and suppliers
- Support the Group's purpose, culture and values and reinforce its ethical and safety standards

Board activities during 2018

The Board is responsible for promoting the long-term success of the Company while ensuring that it has an appropriate risk and control framework, adequate resources and core values to deliver its strategy. The table below summarises the Board's activities over the year and the discussions that took place to discharge its duties to the Company.

Strategy and management	Risk management and internal controls	Financial reporting
Detailed strategy session held to develop future strategy	Reviewed and approved risk appetite proposals and the schedule of principal risks	Received regular updates on performance against budget and forecast
Discussed future business development opportunities	Management of issues associated with the tax audit in Poland	Approved the 2017 Annual Report and Financial Statements and assessed that it was fair, balanced and understandable
Received regular updates from the Group's markets and reviewed trading performance against KPIs	Received regular updates throughout the year on the implementation of the Group's GDPR compliance programme	Reviewed long-term viability statement and going concern statement in the 2017 Annual Report and Financial Statements
Received updates and discussed the ongoing transformation of our technology capabilities	Reviewed personal safety for home credit agents and reviewed the Group's safety management plan	Reviewed and approved half- and full-year results and announcements, together with quarterly trading updates
Received a presentation on the Group's finance strategy	Reviewed risks relating specifically to a 'no deal' Brexit and the associated contingency planning	Approved interim and final dividends
Received presentations on functional strategies for HR and Legal	Received reports from the Audit and Risk Committee on the effectiveness of the systems of risk management and internal controls	Approved the updated Euro Medium Term Note Programme
Received regular updates on credit performance across the Group with particular emphasis on IPF Digital	Approved the reappointment of Deloitte LLP as auditor on recommendation of the Audit and Risk Committee	Reviewed and approved the 2019 business plan and budget
Considered business development opportunities	Received regular updates from the Audit and Risk Committee in respect of internal and external audit reviews	Updates provided during the year, giving the Board oversight of progress on the implementation and impact of IFRS 9

Board composition and effectiveness	Governance	Stakeholder engagement
Considered and approved the appointment of two non-executive directors and the succession of the senior independent director, following recommendations from the Nomination Committee	Received updates on changes and potential changes in regulations, and assessed their impact, including the revised 2018 UK Corporate Governance Code	Communicated with our major institutional investors on the 2019 remuneration proposals for the executive directors
Reviewed and considered conflicts of interest	Reviewed and approved matters reserved to the Board	Visited various market operations
Undertook an internal evaluation of Board performance and that of its committees	Received updates from each Board committee and reviewed terms of reference for the Executive Committee and Technology Committee	Board members met institutional investors during the year
Reviewed succession plans	Reviewed and approved changes to the Treasury Policy	Approved the appointment of a workforce and stakeholder engagement director following recommendation from the Nomination Committee

Board and committee evaluation

In 2018, the Board and its committees carried out an internal evaluation of their performance facilitated by the Company Secretary. The Board completed a questionnaire on the following subjects and the process is described on page 83:

- strategy
- training needs
- board agendas
- culture
- mix of skills, experience and diversity
- value creation versus risk
- risk appetite and risk management
- effective board meetings

Areas of focus	2018 evaluation results	2019 action plan
Strategy	Progress has been made on setting a clear strategic direction and having the right senior management in place. Board members requested that more time be spent on strategic priorities in addition to considering near-term operational issues	Strategy to be a standing item on the Board meeting agendas throughout 2019 Responsibility: Chairman/Company Secretary
Training	Induction training for new directors was considered good. Additionally, training in specific areas such as product development and customer intelligence as well as governance changes was requested.	The Company Secretary to co-ordinate training needs for each of the Board members Responsibility: Company Secretary



"We focused on ensuring the Board membership remained appropriate, with a particular emphasis on diversity."

Dan O'Connor
Committee Chairman

Nomination Committee composition (%)



● Chairman ● Non-executive directors
● Executive directors

Committee members

Dan O'Connor
Chairman


Deborah Davis
Independent non-executive director

Tony Hales
Senior independent non-executive director

John Mangelaars
Independent non-executive director

Cathryn Riley
Independent non-executive director

Gerard Ryan
Executive director and Chief Executive Officer

 **For Board statistics**
see page 55

Dear Shareholder,

During 2018, the Nomination Committee focused on ensuring that Board membership remained appropriate, with an emphasis on diversity, as the business reacts to ongoing changes in consumer needs, particularly in respect of digital credit. We engaged Russell Reynolds, a search consultant which has no other connection to the Group, to search for two non-executives following the decision by Jayne Almond not to stand for re-election at the 2018 AGM.

Working to our brief, including an emphasis on digital marketing experience, Russell Reynolds drew up a shortlist of high-calibre candidates. Deborah Davis and Bronwyn Syiek were selected and we took up detailed references before inviting them to join the Board. I am delighted that Deborah and Bronwyn accepted our invitation in October 2018 and in the short time they have been on the Board are making a valuable contribution to Board discussions.

Our search for a new senior independent director to replace Tony Hales continued during the year. Following a rigorous selection process, we were happy to agree on the appointment of Richard Moat with effect from the conclusion of the 2019 AGM (subject to Richard's re-election as a director). This is a role which is critical for good governance and we are confident that Richard has the appropriate skills, qualifications and capabilities to prove a worthy successor to Tony Hales. Tony, who has been our senior independent director since 2010, will be stepping down from the Board at the conclusion of the AGM. The breadth of experience that he has brought to bear and the depth of insight he has demonstrated have been invaluable to the Board, and I would like to offer my sincere thanks for his support and excellent contribution to the Group.

As previously mentioned, we have been considering how best to engage effectively with our employees and wider society. I am therefore pleased that Bronwyn Syiek has agreed to take up the role as the Board's workforce and stakeholder engagement director. We will report on her role and activities in our 2019 Annual Report and Financial Statements.

Role and composition

The Committee reviews the size, structure and composition of the Board, including current skills and tenure, and succession plans. When reviewing non-executive directors' appointments, the Committee considers the current skills and experience of the Board and assesses future needs against longer-term succession planning and the Company's strategy.

The Committee consists of a majority of independent non-executive directors, as well as the Chairman and Chief Executive Officer, and met four times during the year. Members and their attendance at meetings can be found on page 55. The Committee's terms of reference, which we review periodically, are available on our website at www.ipfin.co.uk.

Board diversity

Diversity and inclusion continue to be an area of focus for the Committee. We recognise the benefits of having a diverse Board and see increasing diversity at Board level as an essential element in achieving our strategy.

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.

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 who we aim to ensure are women. In addition, we only engage executive search firms which have signed up to the voluntary code of conduct for executive search firms.

The policy was applied in our recruitment activities in 2018 and executive search firms were asked to provide candidates in line with the above criteria.

Our objective was to appoint a new non-executive director and in October 2018 we appointed two additional female non-executive directors.

Board induction and development

The Company Secretary is responsible for ensuring that new directors have a thorough and appropriate induction. All newly appointed directors have structured and comprehensive induction programmes and data packs providing detailed information on the Group. Deborah Davis has visited operations in Estonia, Poland, Hungary, Australia and our UK head office, and Bronwyn Syiek has visited Estonia, Poland, Hungary and our UK head office, as part of their induction programmes to gain knowledge and insight of our businesses and to meet the management teams. There are plans for them to visit other markets during 2019 to deepen their knowledge of the Group.

Election and re-election of directors

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 Nomination Committee recommends the election and re-election of all directors who are standing for election or re-election at our 2019 AGM.

Looking forward

We have made good progress in relation to our Board Diversity Policy and we will continue to keep under review the composition of the Board.



"I was able to hit the ground running thanks to a comprehensive induction programme including country visits, access to management and to external consultants, and a thorough multi-month induction plan. The Board and management have been welcoming and supportive. I have been consistently impressed by the quality and depth of the team, the quality of thinking and the management information and reports. I'm delighted to have joined such a well-run, collaborative business."

Bronwyn Syiek
Non-executive director

Board Diversity Policy

Objective	Progress in 2018
<ul style="list-style-type: none"> All Board appointments will be made in the context of skills and experience that are needed for the Board to be effective 	<ul style="list-style-type: none"> The Committee regularly reviewed the composition of the Board and appointed two non-executive directors and a new senior independent director
<ul style="list-style-type: none"> Long lists of potential non-executive directors include 50% female candidates 	<ul style="list-style-type: none"> Recruitment long lists for non-executive director appointments made in 2018 included 50% female candidates
<ul style="list-style-type: none"> At least two female directors on the Board 	<ul style="list-style-type: none"> A third of our Board is now female



“The Committee closely monitored the management of regulatory matters, including how the Group anticipates and engages with regulatory developments, adapts its activities to such developments when they are implemented, and achieves ongoing compliance.”

Richard Moat
Committee Chairman

Audit and Risk Committee composition (%)



● Independent non-executive directors

Committee members

Richard Moat

Chairman and independent non-executive director

Tony Hales

Senior independent non-executive director

Bronwyn Syiek

Independent non-executive director
(Appointed with effect from 12 December 2018)

Deborah Davis

Independent non-executive director
(Appointed with effect from 21 February 2019)

 **For insights into our risk management process**
see pages 42 to 50

Dear Shareholder,

In 2018, the Committee closely monitored the management of regulatory matters, including how the Group anticipates and engages with regulatory developments, adapts its activities to such developments when they are implemented, and achieves ongoing compliance. In addition, the Committee focused on Brexit contingency planning, information security, the developments in the ongoing tax cases (including accounting treatment and disclosure) and the implementation of IFRS 9, particularly its impact on the

calculation of receivables. The Committee also monitored the changes made to our operational governance structures across the business, the progress made in improving the risk management process (notably the monitoring of risks against appetite) and overseeing assurance activities over IPF Digital, as the digital business continues its growth journey.

During 2019, the Committee will focus closely on the management of taxation risks, regulatory contingency planning, the management of regulatory risks and the management of risks to strategy execution, in particular technology risk. In addition the Committee will closely monitor the continuing adoption of IFRS 9, the introduction of IFRS 16, and the continuing effectiveness of the control framework within IPF Digital.

Role and composition

The Committee consists of independent non-executive directors and met seven times during the year. Members and their attendance at meetings can be found on page 55.

Bronwyn Syiek joined the Committee in December 2018 and Deborah Davis joined in February 2019. Jayne Almond stepped down from the Board and the Committee at the conclusion of the 2018 AGM.

The external auditor, Deloitte LLP, the Chief Executive Officer, the Chief Financial Officer, and the Group Head of Internal Audit are invited to attend all meetings. Periodically, senior management from across the Group are 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 another member of the Group's Senior Management Group being present.

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

The Committee's responsibilities are outlined in its terms of reference which 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 the significant financial reporting judgements 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, relating 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 work of the Risk Advisory Group, in particular the Group schedule of key risks, and consider the principal risks see pages 42 to 50 facing the Group and their mitigation.

2018 objectives

- Ensure processing of personal data meets the requirements of General Data Protection Regulation (GDPR)
- 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 to 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

2018 progress

- Monitored progress of GDPR project implementation and its transition to the business-as-usual environment
- Reviewed selection, evaluation and completeness of contingency plans to respond to unanticipated legal and regulatory changes
- Reviewed application of the Group's financial control framework and monitored the effectiveness of IFRS 9 related processes
- Reviewed field operational processes supporting the introduction of agent handheld mobile technology in Europe
- Reviewed and assessed impact of organisational changes on the Group oversight functions
- Reviewed assurance mechanisms to manage people risk
- Reviewed actions taken to improve cost management within the home credit business in Mexico
- Monitored progress made to increase the maturity of the compliance monitoring framework and the implementation of previous internal audit recommendations in this area
- Monitored implementation of actions to improve protection of our corporate network and reviewed controls over mobile device solutions

2019 objectives

- Monitor the management of ongoing regulatory and taxation matters
- Continue to review of how the Group anticipates developments, managing new regulation coming into effect and achieving ongoing compliance
- Continue monitoring of Brexit contingency planning
- Evaluate the effectiveness of the internal financial controls
- Monitor the adoption of IFRS 9 and the coming adoption of IFRS 16
- Monitor effectiveness of an enhanced risk management reporting tool
- Monitor of tax risks facing the Group
- Monitor the continued effectiveness of the governance and control framework within IPF Digital
- Assess assurance mechanisms in the management of credit risk
- Review the ongoing development of credit scorecards, specifically in IPF Digital
- Continue to monitor cyber security measures and operational resilience across the Group
- Review the quality and effectiveness of the internal audit function and the external auditor

Contingency planning

Against the background of continuing regulatory challenges, a key element of the Group's strategy is to protect the home credit business model. The management of future legal and regulatory risks is a critical element of the internal control framework, together with the establishment of viable contingency plans in response to currently unanticipated but potential regulatory change scenarios.

The 2018 annual internal audit plan included an in-depth evaluation of the selection of regulatory change scenarios to be included within the 2018 regulatory contingency planning process. The Committee took comfort from the result of the internal audit report, which recognised the improvements made to the regulatory management framework to ensure appropriate identification, assessment and selection of future regulatory developments requiring a contingency plan. The internal audit report confirmed that the framework continues to achieve its required objectives and also identified an opportunity to further align the contingency planning process with the risk management framework.

In addition, the Audit and Risk Committee invited the Group corporate affairs director to give a presentation during the June 2018 and January 2019 Committee meetings covering progress with the internal audit actions and the selected contingency plans for the European home credit businesses.

Activities in 2018

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. The Committee also continued to monitor the implementation of IFRS 9, the financial instruments accounting standard, which became effective from 1 January 2018, and received, reviewed and challenged reports from management on how it was embedded into business-as-usual reporting. 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 areas of judgement in respect of impairment provisions made against amounts receivable from customers are the parameters used in the expected loss models, the expected timing of future cash flows and post-model overlays. The expected loss models are driven by historic data in respect of probability of default and exposure at default together with loss given default for each portfolio. At both the half-year and full-year results, the Committee considered a paper prepared by management summarising the work performed to update parameters used in the expected loss and the cash flow timing models. This paper also addressed the use of post-model overlays in instances where the most recent trends in the data are felt to be more relevant than some of the more historic information. Further detail on the post-model overlays considered is given in the key sources of estimation uncertainty section of this Annual Report on page 108. The external auditor performed audit procedures on impairment provisioning and reported its findings to the Committee. The Committee concluded that the receivables impairment provisioning in the Financial Statements was appropriate.

- **Revenue recognition:** the judgement in respect of revenue recognition is the methodology used to calculate the effective interest rate. The calculation takes into account all the contractual terms together with the extent and timing of customer early settlement behaviour. 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. The Committee concluded that revenue recognition in the Financial Statements was appropriate.
- **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 2018, was the basis of the judgements taken relating to accounting for payments made relating to the Polish tax audits of the 2008 and 2009 financial years, the ongoing Polish tax audits in respect of the 2010 to 2012 financial years and the associated contingent liability and liquidity disclosures. The external auditor performed procedures to assess management's judgements and reported its findings to the Committee. The Committee concluded that the provision for uncertain tax provisions included in the Financial Statements was appropriate.
- **Regulation:** the business is subject to regulatory scrutiny in multiple jurisdictions and at times it is appropriate to make provisions 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. The Committee concluded that the provisions for potentially adverse rulings by regulatory authorities included in the Financial Statements were appropriate.

Review of the 2016 Annual Report and Financial Statements

The Financial Reporting Council (FRC) undertook a review of the Company's 2016 Annual Report and Financial Statements to assess compliance with reporting requirements rather than providing assurance that the document was correct in all material respects. The review resulted in an exchange of correspondence with the FRC in respect of the presentation of alternative performance measures, the presentation of exceptional items in respect of the wind-down of the Group's Slovakia operation and the disclosure of significant accounting judgements and sources of estimation uncertainty. Consequently, a number of enhancements were made to disclosures in the 2017 Annual Report and Financial Statements and the FRC closed its inquiry. The Company's response to the inquiry and correspondence with the FRC was overseen by the Committee.

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. The Group recognises the importance of strong systems of internal control in the achievement of its strategy and objectives. It is also 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 and uncertainties facing the business. The Board formally considers the schedule on a six-monthly basis and approves risk appetite annually. The Committee is supported in its work by the Risk Advisory Group, which in 2018 comprised the Chief Executive Officer, Chief Financial Officer and Chief Legal Officer, together with other members of the Senior Management Group. 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 focused on monitoring the continuing evolution of regulation in our territories. The Committee received, reviewed and challenged regular updates from management on these matters.

Following the proposals published by the Polish Ministry of Justice in December 2016 for a significant reduction to the cap on non-interest costs charged on consumer loans, the Committee received regular updates on management's actions. On 18 February 2019, the Ministry published a draft bill containing a modified set of proposals for a reduction in the cap on non-interest costs, details of which are covered in the CEO review on page 22 and our Principal risks on page 45. The Committee will continue to monitor the matter closely.

Additionally, the Committee continued to monitor the progress of the Polish tax audits for 2008, 2009, 2010 and 2011 together with the Polish corporation tax law reform that became effective on 1 January 2018. The Board also received regular updates on associated issues relating to the tax audits.

The Committee has noted that IPF continued with its strategy of diversifying the sources of funding, has a strong funding position with a good level of headroom on undrawn bank facilities which gives resilience on funding requirements and flexibility on timing.

The Committee will continue to assess the impact of these matters on the business and in monitoring management's response throughout 2019.

The internal control environments in place to manage the impact of each risk are monitored by the Committee on a regular basis, as are the principal actions being taken to mitigate 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 2018 are referred to in the 'Training' section on page 65. The internal controls in relation to the preparation of the Consolidated Financial Statements are outlined on page 88.

Through the Committee, the Group internal audit function provides independent assurance to the Board on the effectiveness of the systems of internal control. The Committee provides oversight and direction to the internal audit plan, which was developed using a risk-based approach, 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. Deloitte LLP did not highlight any material control weaknesses.

Internal audit

A firm basis for the opinion on the Group's systems of internal control (see page 65) was provided throughout the year by the Group Head of Internal Audit via the execution of the annual internal audit plan. KPMG and EY 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 considered and approved the annual internal audit plan on the basis that it addressed the principal risks and uncertainties facing the business. The Committee is satisfied that the internal audit function has a clear remit and a good linkage with the organisation.

Internal audits performed in 2018:

Basic assurance

Branch-level reviews:

- Management of credit, collections and loss prevention controls in home credit branches in Romania where the local regulatory requirements direct internal audit to perform such work
- Branch processes in support of MyProvi, our mobile handheld technology collections application for agents

Head office audits:

- Calculation and disbursement of agent pay
- Taxable revenue and impairment calculations
- Procurement framework
- Core controls over:
 - People risk
 - Treasury risk
 - Financial reporting risk
 - Health and safety risk

Thematic audits

- Regulation and compliance:
 - Regulatory contingency planning process
 - Implementation of the Compliance Framework
 - Implementation of the GDPR requirements
- IT and systems:
 - Global IT resource and capability
 - Mobile device cyber security
 - Cloud adoption project
 - Technology investment and integration at IPF Digital
- Credit and collections:
 - Lead conversion at IPF Digital
 - Reminder and collection partners management at IPF Digital
- Strategic:
 - Micro-business loans (Negocio) by Mexico home credit
 - European home credit strategy execution

The Committee reviewed the audit reports produced and, together with internal audit, rigorously tracked the resolution of findings and recommendations raised in the reports.

The Committee assessed the effectiveness of internal audit by monitoring the delivery of the audit plan and by reviewing its staffing and functional model with the aim of enhancing technology auditing capabilities. It is satisfied that the quality, experience and expertise of the function are appropriate for the business.

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 services.

The key requirements of this policy are:

- the external auditor is prohibited from providing certain services which include: tax services; payroll services; designing and implementing internal controls or risk management procedures; legal services; internal audit services; human resource services; valuation services; 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 FRC'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 is 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 LLP in 2018	Fee £'000
Other non-audit services	7
Other assurance services	81
Total	88

During the year, the Committee continued to monitor the quality of the external auditor, in particular, how the auditor applies the improvements identified by FRC's Audit Quality Review Team from its audit of the 2016 Financial Statements. The Committee reviewed and was satisfied with the specific actions taken by Deloitte LLP to address the three areas of potential improvement that were recommended by the FRC's review.

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. 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 2018, the Audit and Risk Committee is satisfied with the relationship with the auditor and, in particular, with its independence, objectivity and effectiveness. Therefore, at its February 2019 meeting, the Committee recommended to the Board that Deloitte LLP be reappointed as auditor at the 2019 Annual General Meeting.

During the year ended 31 December 2018, 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 2018. This included presentations on the following key business areas:

- cyber security assurance in an evolving landscape;
- continued development of the information security framework;
- overview of the political and regulatory environments in our markets, regulatory trends and the potential of new legislation coming into effect;
- integrated assurance mapping across the Group's schedule of key risks;
- taxation strategy, significant tax risks and issues;
- compliance framework development;
- corporate governance reforms including Audit and Risk Committee focus areas and best practices;

- developments in the international taxation regulatory environment, including Brexit negotiations and their potential impact on the Group; and
- calculation and oversight of revenue and impairment under IFRS 9 in the business-as-usual environment.

This training was complemented by a visit to the Group's business in Poland, which included discussions with the home credit and IPF Digital management teams.

Committee effectiveness

The Committee's performance was reviewed as part of the internal Board evaluation review as discussed on pages 82 and 83. Feedback on the breadth of oversight, level of challenge and quality of Board updates provided by the Committee was positive. The Committee is considered to function well, with structured meetings and good engagement and challenge provided across its remit by all its members. It continues to be regarded as thorough and effective, and to provide the Board with a high level of assurance that audit matters are dealt with appropriately.

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 2018 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 were in place throughout 2018 and up to 27 February 2019.

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 2018, 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.



“We made good progress in digitising the home credit businesses with MyProvi, our mobile handheld technology application, which is being used by more than 10,000 agents and field managers.”

John Mangelaars
Committee Chairman

Technology Committee composition (%)



● Independent non-executive directors

Committee members

John Mangelaars

Chairman and independent non-executive director

Richard Moat

Independent non-executive director

Cathryn Riley

Independent non-executive director

Bronwyn Syiek

Independent non-executive director

(Appointed with effect from 21 February 2019)

Dear Shareholder,

The Committee oversees the implementation of the IT strategy and monitors progress against its delivery. During 2018, the Committee received regular updates on the implementation of the IT strategy, where a number of goals were reached and we provided input, challenge and approval on the evolution of our IT strategy and underpinning organisational structures. The Committee will monitor the delivery of the four pillars of our IT strategy through 2019 and beyond.

Digitising the home credit businesses

We received reports on the progress made in digitising the home credit businesses with MyProvi, our mobile handheld technology application for agents. The roll-out of MyProvi was completed successfully across our European home credit markets in 2018.

This project has enabled the removal of paper and manual processes in Poland and the Czech Republic, and will also benefit our other European markets in 2019. The focus will be on enriching the functionality of MyProvi in Europe to remove further manual back office processes and the roll-out of the MyProvi application in Mexico. In addition, we will focus on overseeing and monitoring the progressive move to cloud-based solutions to drive efficiencies as the infrastructure provision is standardised across the home credit businesses.

Single digital platform

During 2018, the Committee approved an evolution in our single digital platform strategy for all our digital offerings. The programme has now been reset by utilising existing, proven technologies and teams from our IPF Digital business with all digital capability now centralised in support of this. During 2019, we will monitor investment in the scalability and robustness of our single digital platform and the start of its deployment to our European home credit markets.

Data strategy

The Committee was updated on progress made with the data strategy, delivering the first phase of a strategic data lake for the Group. This has enabled our data science team to access a broad range of data sets from across the Group which, in turn, supports our ability to deliver predictive analytical models and insight, driving tangible value for the business. The analytics and data management teams, and their capabilities, are being developed and strengthened to deliver this important element of the IT strategy.

We will continue to monitor the progress made on this important pillar of the IT strategy where data analytics has the potential to add value to the Group.

People and capabilities

The Committee was engaged on changes made to the IT structure and oversaw an evolution in IT strategy in 2018. The Group has strengthened capabilities to provide greater oversight and direction for IT globally. A broader IT structure was implemented in which delivery teams were aligned to the divisional structure of the businesses, resulting in improved service capability, while embedding stronger central and Group capabilities.

Role and composition

The Committee consists of independent non-executive directors and met three times during the year. Bronwyn Syiek, joined the Committee in February 2019. Members' and their attendance at meetings can be found on page 55. The Chief Executive Officer, Chief Financial Officer and Chief Technology Officer are invited to attend all meetings. Periodically, senior management from across the Group are invited to present on matters pertinent to the Committee's remit.

The Committee's responsibilities are outlined in its terms of reference which are available on our website at www.ipfin.co.uk.

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 delivery of the programme is supported effectively by appropriate, reliable plans and governance; and
- authorising commitments within financial limits delegated by the Board.



"Our goal is to achieve fair outcomes clearly linked to business performance and strategy."

Cathryn Riley
Chair of the Remuneration Committee

Committee members

Cathryn Riley

Chair and independent non-executive director

Tony Hales

Senior independent non-executive director

Richard Moat

Independent non-executive director

Deborah Davis

Independent non-executive director

Dan O'Connor

Chairman of the Board

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018 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.

Our focus this year has continued to be the effective implementation of the 2017 Policy in the context of business performance and long-term strategic objectives. Our remuneration principles are unchanged: simplicity and transparency; alignment with business strategy; and a strong relationship to business performance. No significant policy changes are expected in 2019.

Overview

Role and composition

The Committee comprises four independent non-executive directors and the Chairman. Full biographical details of members can be found on pages 52 and 53. Jayne Almond stepped down from the Committee at the conclusion of the 2018 AGM. Deborah Davis and Dan O'Connor were appointed to the Committee on 12 December 2018.

The Committee met six times during the year. Attendance at meetings can be found on page 55.

The Committee's responsibilities include:

- approving the remuneration policy for executive directors, the Chairman and the Senior Management Group and making recommendations to the Board. The Committee takes account of the remuneration of the wider workforce when setting remuneration policy for, and making remuneration decisions in respect of, the directors;
- determining appropriate performance targets and incentive outcomes; and
- engaging with shareholders on matters relating to remuneration.

The Committee's terms of reference are available on our website at www.ipfin.co.uk.

2018 focus and progress

The Committee's primary focus for 2018 was the effective application of the 2017 Policy. This was achieved by way of the following:

- salary, bonus and share awards set for executive directors in line with the 2017 Policy;
- salary, bonus and share awards approved for senior management;
- the above concluded with clear alignment to business performance; and
- ongoing monitoring of the regulatory landscape to ensure continued compliance.

The Committee reviewed its terms of reference during the year to align with latest governance recommendations.

The Committee also requested Deloitte to perform a review of the conversion of the IAS 39 budget to IFRS 9, in order to ensure that sufficient diligence was shown when setting targets for 2018. Following completion of this review, the Committee drew comfort from assurances from Deloitte that the process to bring targets into line with IFRS 9 was diligent and sound.

2019 focus

- Effective application of the 2017 Policy;
- thorough review of Directors' Remuneration Policy ahead of the shareholder vote at the 2020 AGM; and
- review of workforce remuneration and related policies, in line with the Committee's extended remit resulting from the Financial Reporting Council's updated UK Corporate Governance Code (July 2018).

Business context – 2018 performance

We made excellent progress against our strategic objectives which delivered a very strong financial performance in 2018. Profit before tax increased by £12.1 million to £109.3 million as a result of improving profits across all our businesses. Excellent progress was made against strategic objectives, notably in Mexico home credit and IPF Digital, and our European home credit businesses continued to generate cash and capital to fund growth opportunities and returns to shareholders despite intensifying competition and contracting customer numbers. The operational review and financial review for 2018 can be found on pages 26 to 31 and 37 to 41 respectively and include some of the key financial metrics that we use to incentivise executive directors to deliver our strategy. Headlines include:

- Group profit before tax from continuing operations of £109.3 million, an increase of £12.1 million after restating 2017 profit before tax on an IFRS 9 basis;
- revenue less impairment of £639.4 million being higher than 2017 due to a larger receivables balance and stable credit quality;
- strong credit issued growth of 35% in IPF Digital;
- 12% growth in credit issued in Mexico, delivered by strategic initiatives including geographic expansion and micro-business loan growth;
- EPS of 33.8 pence, increased from 31.0 pence after restating 2017 profit before tax on an IFRS 9 basis, as a result of the increase in profit partially offset by a higher effective tax rate.

The Committee considered all aspects of business performance in detail when determining remuneration outcomes.

Outcomes for 2018

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 2019 base pay award of 2.5% for our Chief Executive Officer, which aligns with the award given to the wider workforce in the UK. In taking this decision, the Committee was mindful that this is the second year in succession of workforce-aligned award. The increase was debated fully and deemed fair and reasonable given the performance of the business outlined above and his continuing strong leadership of the Company;
- a 2019 base pay award of 8.93% 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);
- financial year 2018 bonus awards of 98.0% of maximum. These awards reflect the strong financial performance of the business as outlined in the business context section of this report 26 to 31 and 37 to 41 respectively, coupled with the outstanding individual performance of each executive director in delivering their personal objectives as explained on pages 74 to 75;
- 2018 Performance Share Plan (PSP award) of 190% of salary, in line with policy; and
- legacy 2016 awards that have vested at 0% due to none of the LTIP measures having been met, see page 76.

In making these decisions, the Committee engaged in robust and thorough debate, taking into account the strong performance of the business in approving bonus recommendations and in its oversight of wider remuneration.

Shareholder and employee engagement

A full consultation was undertaken in 2016 in support of the introduction of the 2017 Policy, since when we have maintained an ongoing dialogue with major investors in line with our stated commitment to operate in an appropriately transparent fashion. The Committee's key decisions and rationale were again set out in a formal letter to major shareholders in January 2019.

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 available employee engagement results as part of the overall assessment of executive director performance.

In agreeing amendments to its terms of reference in 2018, the Committee has undertaken to review wider workforce remuneration and related policies including pension arrangements for each executive director and members of the Senior Management Group and their alignment with those available for the wider workforce. Further, the Committee considers the alignment of incentives and rewards with the Company's strategy and desired culture, taking these into account when setting the policy for executive director and Senior Management Group remuneration.

The Committee notes the requirements of the Investment Association Principles of Remuneration (November 2018) and the Financial Reporting Council's updated UK Corporate Governance Code (July 2018), particularly with regard to pension policy and post-employment shareholding requirements, and will take account of these requirements when reviewing the Remuneration Policy ahead of the shareholder vote at the 2020 AGM.

How we ensure our pay is compliant

The Committee remains determined to ensure that our application of the 2017 Policy is compliant with both the letter and the spirit of prevailing regulation and legislation to the greatest extent possible. As a Committee we continue to achieve this through:

- timely dialogue and consultation with our major shareholders on remuneration policy 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.

REMUNERATION AT A GLANCE

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.

Strategic Priorities

IPF Digital

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

Mexico home credit

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

European home credit

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

Our Remuneration Policy

	2018	2019	2020	2021	2022	2023
Salary, pension and benefits						
Annual bonus		Deferral of 50%				
		Malus on deferral				
		Clawback on cash				
Long-term incentive plan				Vest		
				2-year holding		
				Clawback period		

Links to strategy

Attract and retain talent capable of delivering the Group's strategy

Motivate and reward sustainable Group profit before tax and the achievement of specific personal objectives in year linked to the Company's strategy

Motivate and reward longer-term performance, and support shareholder alignment through incentivising absolute shareholder value creation

Key features

Normally reviewed annually
Salary increases take into account salary reviews across the Group and increases awarded to UK employees

Maximum opportunity 100% of base (65% on target); 50% delivered as cash; 50% deferred for 3 years. Typically 80% based on financial and strategic measures; 20% personal objectives linked to delivery of strategy

In normal circumstances, award equivalent to 190% of base salary at time of grant. 3-year performance period with 3 weighted metrics. 25% vesting at threshold; straight line to maximum. 2-year post-vesting holding period

Our performance in 2018

Profit before tax
£109.3m £12.1m increase
Revenue less impairment
£639.4m
EPS
33.8p

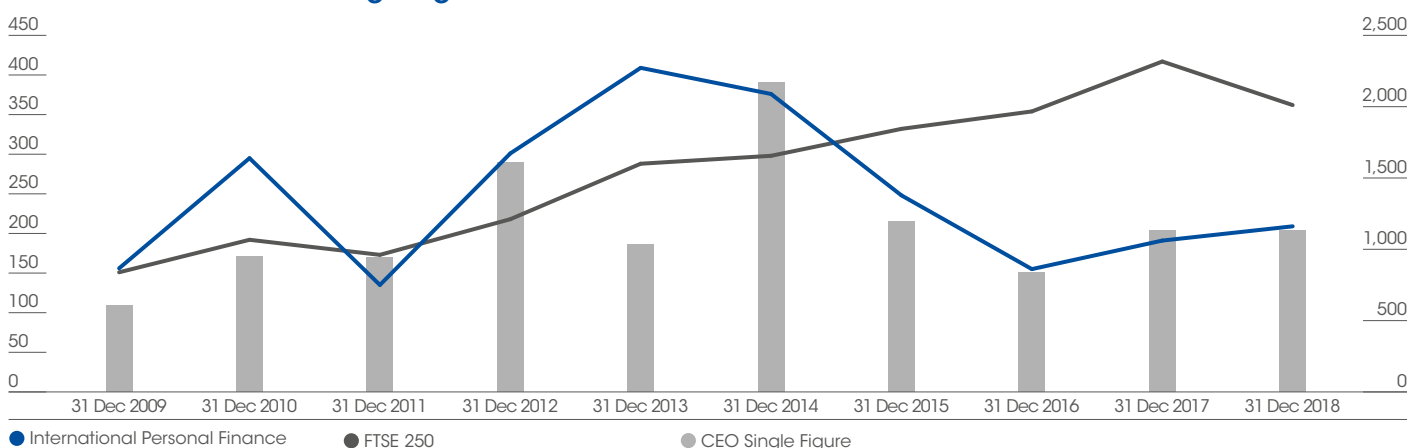
IPF Digital credit issued growth
35%
Mexico credit issued growth
12%

Our remuneration outcomes

Base pay award for our CEO
2.5%
Base pay award for our CFO in line with previously declared intent
8.93%
Bonus award % of maximum award
98% Chief Executive Officer
98% Chief Financial Officer

Performance Share Plan awards of salary in line with policy
190%
Legacy 2016 Performance Share Plan vested at
0%

TSR Performance vs CEO Single Figure



Directors' remuneration policy

The remuneration policy, which was explained in detail on pages 74-80 of the 2016 Annual Report and Financial Statements (a copy of which can be found on our corporate website www.ipfin.co.uk) was approved by shareholders at the AGM in 2017 and took effect from 3 May 2017. The Committee believes that the Policy remains appropriate but has committed to review its structure and operation in 2019 ahead of a proposal for shareholder approval at the AGM in 2020.

Key aspects of the Policy are summarised below.

Item	Rationale
Base salary	<ul style="list-style-type: none"> Set taking into account the role, experience, responsibility and performance of both the individual and the company Salaries are normally reviewed annually, with any change effective April 1 Any salary increases for Executive Directors should normally align with those awarded to UK employees.
Annual bonus	<p>Opportunity (% of base salary)</p> <ul style="list-style-type: none"> Maximum opportunity – 100% On target opportunity – 65% No threshold opportunity Overall Group PBT threshold must be met for the scheme to operate <p>Performance metrics</p> <ul style="list-style-type: none"> 80% balanced scorecard financials 20% personal performance Awards are made 50% in cash and 50% in deferred shares subject to clawback and released after 3 years
Performance Share Plan (PSP)	<p>Opportunity (% of base salary)</p> <ul style="list-style-type: none"> Policy – 190% Exceptional – 250% <p>Performance Metrics</p> <ul style="list-style-type: none"> Absolute TSR – 50% Cumulative EPS growth – 25% Growth in revenue less impairment – 25% <p>Performance period</p> <ul style="list-style-type: none"> 3 years plus 2 years additional holding
Pension	<ul style="list-style-type: none"> Company contribution of 15% for new appointments
Benefits	<p>Standard benefits package includes:</p> <ul style="list-style-type: none"> Life cover at 4 x salary Car allowance Long term disability cover Private Medical cover and Annual medical Participation in SAYE Additional benefits (relocation etc.) provided only where necessary in the circumstances

Notes to the 2017 Policy

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 circumstances 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 dividend equivalents); 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.

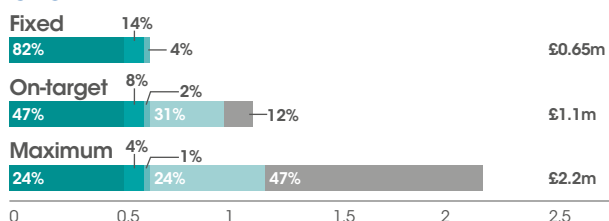
Illustrations of total remuneration opportunity

The charts below 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'.

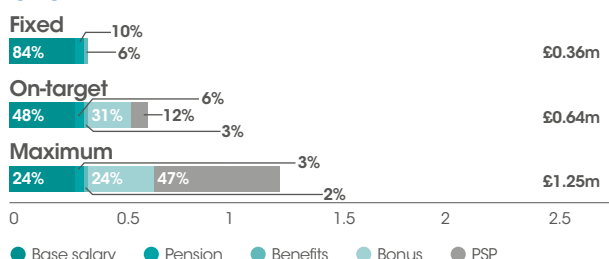
The charts are indicative, as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows:

- 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.

CEO



CFO



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 buy out 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 Group.

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 plan, 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, 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 was appointed on a six-month rolling contract.

DIRECTORS' REMUNERATION REPORT CONTINUED

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. At the 2019 AGM, all directors (with the exception of Tony Hales) will be standing for election or 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
Deborah Davis	October 2018
Tony Hales	July 2007
John Mangelaars	July 2015
Richard Moat	July 2012
Cathryn Riley	February 2014
Bronwyn Syiek	October 2018

Jayne Almond was appointed as a non-executive director in June 2015 and stepped down from the Board at the conclusion of the 2018 AGM.

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. The SAYE is available to all UK employees.

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.

Additional disclosures for single figure of total remuneration table

Base salary

The base salary for the Chief Executive Officer will be increased by 2.5% from April 2019 in line with the wider UK base salary award. The base salary for the Chief Financial Officer will be increased by 8.93% from April 2019 in line with the Committee's intent, as highlighted in the 2016 Annual Remuneration Report, to achieve the desired salary level commensurate with the role, subject to performance.

Benefits

The benefits provided to the executive directors in 2018 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 2018, and it is not anticipated that the cost of benefits provided will exceed this level materially during the period in which the 2017 Policy applies.

Determination of 2018 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 pay-out for below target performance). During 2018, a balanced scorecard approach was again used to ascertain the annual bonus where 60% of total bonus opportunity in 2018 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 plan outcome (from a maximum of 100% of base salary) was subject to the achievement of personal objectives and 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 plan subject to personal performance as follows:

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

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 2017 and 2018.

	Salary/fees £'000		Benefits £'000		Bonus¹ £'000		LTIP £'000		Pension £'000		Total £'000	
	2018	2017	2018	2017	2018	2017	2018²	2017³	2018	2017	2018	2017
Executive directors												
Gerard Ryan	516	505	26	26	506	488	19	22	91	89	1,158	1,130
Justin Lockwood⁴	275	221	22	18	270	251	4	5	38	31	609	526
Non-executive directors												
Dan O'Connor	200	200	-	-	-	-	-	-	-	-	200	200
Jayne Almond⁵	14	55	-	-	-	-	-	-	-	-	14	55
Deborah Davis⁶	11	-	-	-	-	-	-	-	-	-	11	-
Tony Hales⁷	75	75	-	-	-	-	-	-	-	-	75	75
John Mangelaars⁸	65	65	-	-	-	-	-	-	-	-	65	65
Richard Moat⁹	70	70	-	-	-	-	-	-	-	-	70	70
Cathryn Riley¹⁰	65	65	-	-	-	-	-	-	-	-	65	65
Bronwyn Syiek⁴	11	-	-	-	-	-	-	-	-	-	11	-

- 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 2018 award was determined is provided in the additional disclosures section on page 72.
- The value of awards included in the table for 2018 relates to the DSP matching award, granted in 2016, the performance period for which was the three financial years ended 31 December 2018 and did not vest. This value also includes the anticipated value of dividend equivalents that will be payable in 2019.
- The value of awards included in the table for 2017 has been revised to reflect the actual value of awards vesting and any dividend equivalents received in 2018 when the awards became exercisable.
- Justin Lockwood was appointed to the Board on 23 February 2017. His salary on appointment was £260,000 per annum (£221,000 pro rata), increasing to £280,000 with effect from April 2018.
- Jayne Almond stepped down from the Board at the conclusion of the AGM on 4 May 2018.
- Deborah Davis and Bronwyn Syiek were appointed to the Board on 18 October 2018.
- 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.
- John Mangelaars chaired the Technology Committee during 2018. In addition to his base fee of £55,000, he was paid a fee of £10,000 per annum for this additional responsibility.
- Richard Moat chaired the Audit and Risk Committee during 2018. In addition to his base fee of £55,000, he was paid a fee of £15,000 per annum for this additional responsibility.
- Cathryn Riley chaired the Remuneration Committee during 2018. In addition to her base fee of £55,000, she was paid a fee of £10,000 per annum for this additional responsibility.

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 2018 were as follows:

	Weighting	Threshold	Target	Maximum	Achievement	Bonus payout
Group profit before tax	60%	£96.0m	£101.3m	£106.0m	£109.3m	60.0%
Mexico credit issued growth	10%	-	11.6%	13.2%	12.3%	8.0%
IPF Digital credit issued growth	10%	-	23.4%	26.8%	34.7%	10.0%

Bonus targets were adjusted to exclude FX benefit.

Performance against the Group profit before tax target (adjusted to exclude FX impact) reflected the strong performance of the business in 2018 and our strategic focus on managing the European home credit markets for returns. Mexico credit issued grew by 12.3% and IPF Digital improved credit issued by 34.7%, also reflecting the strategic focus on, and investment in, these areas. 50% of the bonus earned will be deferred into shares for three years (plus two year post-vesting holding period).

Personal objectives

The table below shows the objectives that were set for the Chief Executive Officer in 2018 and achievement against them.

Gerard Ryan – Chief Executive Officer

Category	Objectives	Weighting %	Results	Achievement
Balance sheet	Work with the CFO to optimise the portfolio quality so that refinancing of the balance sheet is delivered in an orderly and effective manner.	10%	Very effective execution of our growth and quality strategy has enabled us to deliver positive top line growth and improved portfolio quality. Bi-lateral bank line funding has been increased in both tenor and amount and overall funding headroom has been increased prior to the commencement of our major bond refinancing events.	●
Enabling growth	Invest more time with growth businesses: Mexico home credit and IPF Digital.	25%	Significant time spent in both businesses, nurturing the key leadership and helping them to maintain focus on the critical growth opportunities. Both businesses have delivered very strong top line growth and maintained or improved portfolio quality.	●
Risk management	Manage regulation and taxation risks with a particular focus on Poland and Romania.	25%	Our engagement with external stakeholders who control the regulatory agenda has been transformed. We have established communication channels that were not previously open to us and use both influential local resource as well as British trade resource to achieve the desired results. Where new regulations are implemented, we now ensure that our voice is heard prior to final approval.	●
Technology	Ensure that the strategic technology investments for the Group are executed in accordance with the plan agreed with the Board.	15%	Our strategy calls for significant investment in technology to improve our customer journey and to make our business more efficient. The Board are fully engaged in the strategic direction and oversee the execution and the major components (agent technology and a single digital platform) are progressing smoothly.	●
People	Structure the IT organisation to better align it to the business and to provide greater synergy between digital and home credit businesses.	25%	The IT organisation has been fully realigned to better meet the strategic and operational needs of our businesses. The implementation was well executed and has the full support of the business leaders and is providing better flexibility and execution certainty.	●
	Provide the Board with a detailed review of key leadership positions and planned actions.		A complete People and Organisation Planning review process is now in place and builds from business division up to the full Group and is then discussed and debated with the Board. The key focus is on delivering the right capabilities to execute our strategy and ensuring that we have a pipeline of successors for our most senior positions.	

The table below shows the objectives that were set for the Chief Financial Officer in 2018 and achievement against them.

Justin Lockwood – Chief Financial Officer

Category	Objectives	Weighting %	Results	Achievement
Digital and home credit	Allocate capital in order to deliver shareholder returns. Enable funding of growth plans at reasonable cost.	25%	Investment decisions taken by reference to the Group's investment appraisal framework. SEK bonds issued in Q2 2018 at reasonable cost.	
	Manage response to tax challenges to protect shareholder capital.		Proactive management of tax challenges in Poland.	●
	Clearly communicate IPF's investment proposition. Ensure that changes arising from IFRS 9 are well communicated to investors with no negative impact on share price.		Successful implementation of IFRS 9 and the changes it has on the Group's reported financial performance. Changes reflected in IPF's investment proposition. No negative impact from providers of finance.	
Business strategy	Embed 'Managing for Returns' across all business units. Provide finance support to key strategic projects.	25%	'Managing for Returns' and the focus on return on assets embedded across all business units. Proactive finance support for all strategic projects delivered.	●
Functional development	Deliver clear regional functional strategies to support business strategy and deliver cost reduction/capability upgrades.	25%	Regional functional strategy developed and executed in all business units to support delivery of business strategy.	●
	Assess finance resource and skills to support key strategic projects.		Finance resource, including specialist resource, secured to support strategic projects.	
People	Increase leadership capability and develop succession pipeline across the function.	25%	Structured finance-specific leadership programme and use of Aspire programme to develop leadership capability and succession within the function. Targeted recruitment to strengthen the finance team.	●

Having reviewed the executive directors' performance against their personal objectives and in the context of the challenges faced by the business in 2018, the Committee determined that both executive directors met their personal objectives in full. Consequently the bonus pay-out in respect of personal objectives is 20% for the CEO and CFO calculated as follows:

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



Criteria met



Criteria partially met



Criteria not met

Bonus outcome for 2018

The Committee awarded bonuses to the executive directors of the amounts shown below for the year ended 31 December 2018.

	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 2022 £'000	Total value of 2018 annual bonus £'000	Cash and DSP shares award as a percentage of maximum bonus available
Gerard Ryan	78.0%	20.0%	253.0	253.0	506.0	98.0%
Justin Lockwood	78.0%	20.0%	134.8	134.8	269.6	98.0%

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 70.

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 2018 amounted to £90,749, all of which was paid as a cash allowance.

The Company's contributions in respect of Justin Lockwood during 2018 amounted to £37,671, £25,932 of which was paid as a cash allowance.

Long-term incentives

Awards estimated to vest during 2019 (included in 2018 single figure)

The LTIP amount included in the 2018 single figure relates to the DSP matching shares and PSP awards granted in 2016. The performance achieved against the performance targets is shown below:

PSP and 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	98 pence	110 pence	0%	0%
Growth in revenue less impairment	1/3	5% p.a.	12% p.a.	0%	0%
Total				0%	0%

1. Based on TSR from 1 January 2016 to 31 December 2018.

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 plans (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 79-80.

Awards granted during 2018

Awards were made in the financial year ending 31 December 2018 under the PSP (long term incentive plan), DSP and the SAYE.

PSP

Executive directors were granted long term incentive plan awards structured as PSP options in April 2018. The resulting number of PSP shares and associated performance conditions are set out below. Awards granted in 2019 will be in line with the 2017 Policy.

	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	408,162	988,285	190%	31 December 2020	25%	1/2	Absolute TSR
					25%	1/4	Cumulative EPS growth
					25%	1/4	Growth in revenue less impairment
Justin Lockwood	219,716	532,000	190%	31 December 2020	25%	1/2	Absolute TSR
					25%	1/4	Cumulative EPS growth
					25%	1/4	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 242 pence per share.

Performance conditions

Awards granted during 2018 will vest as follows, with straight-line vesting between the points:

	Absolute TSR	Cumulative EPS growth	Growth in revenue less impairment
Weighting	1/2	1/4	1/4
Vested at threshold	25%	25%	25%
Threshold	30% over 3 years	91.5 pence	4.6% p.a.
Stretch (100% vesting)	60% over 3 years	106.7 pence	6.7% p.a.

DSP

In 2018, half of the annual bonus earned in respect of 2017 was deferred in shares. There are no further performance conditions attached to the vesting of the deferred shares.

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 £
Gerard Ryan	10 April 2018	243,883
Justin Lockwood	10 April 2018	125,564

1. The face value was calculated using the share price for the preceding day of grant, being 239 pence per share.

SAYE

As noted in the 2017 Policy, UK-based executive directors are entitled to participate in the Company's all-employee plan. The executive directors did not participate in the SAYE, therefore no options were granted to them under the plan in 2018.

Loss of office payments (audited information)

No individual received payment for loss of office during 2018.

Payments to past directors (audited information)

No payments were made to past directors during the year. Adrian Gardner will receive (on a time pro-rated basis) any shares due to him under the 2016 DSP plan, as 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 2017 and 2018 compared with the percentage change in aggregate pay in each of those components for a selected group of employees. The Senior Management Group (SMG) is the selected comparator group (currently 10 individuals with complete 2017 and 2018 service as SMG 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.

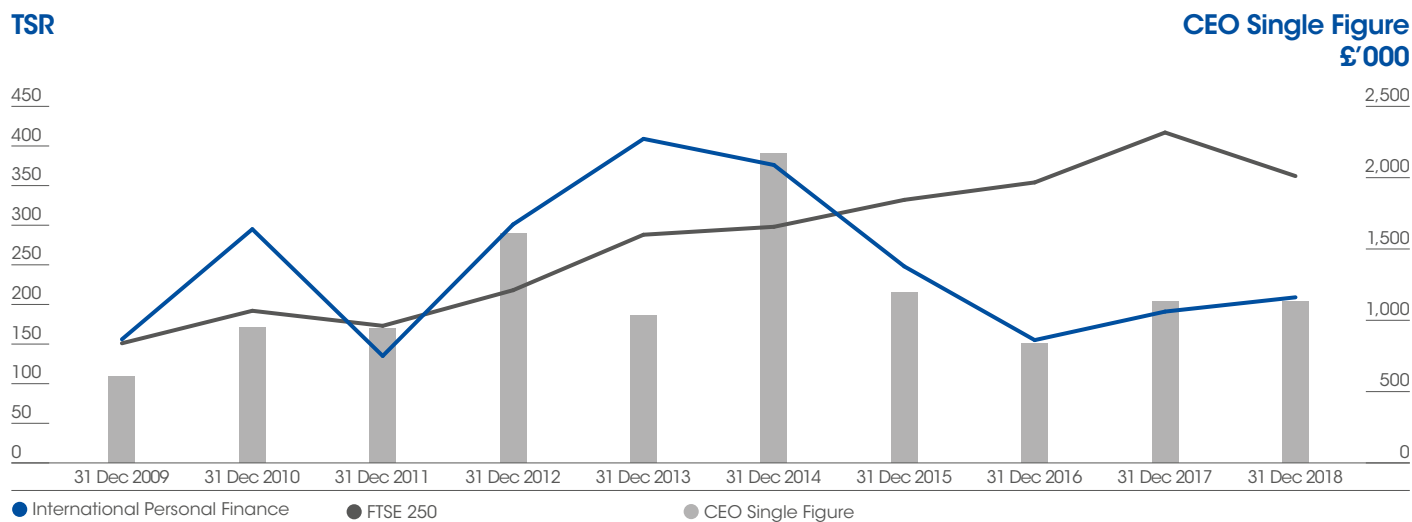
	CEO		SMG
	To 31 December 2018 £'000	Percentage change (2018 vs 2017)	Percentage change (2018 vs 2017)
Salary	516	2.2%	3.6%
Benefits	26	0%	6.6%
Bonus	506	3.7%	2.7%

DIRECTORS' REMUNERATION REPORT CONTINUED

TSR performance

The graph below compares the TSR of the Company with the companies comprising the FTSE 250 Index for the ten-year period ended 31 December 2018. 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. TSR data is presented in tandem with CEO single figure total remuneration for the same period to highlight the relationship between remuneration and shareholder returns.

IPF TSR vs FTSE 250 vs CEO single figure total remuneration



Total Shareholder Return 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)	LTP vesting (as % of maximum opportunity)
2018	Gerard Ryan	1,158	98.0%	0%
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.

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	2018	2017	Percentage change
Overall expenditure on pay	192.9	193.0	0.0% ¹
Dividend paid in the year	27.7	27.6	0.4%

1. The percentage increase at a constant exchange rate is 2.5%

Other directorships

The executive directors do not currently hold any other external 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 2018 (together with interests held by his or her persons closely associated) are shown in the table overleaf. When Cathryn Riley, Richard Moat and Dan O'Connor bought shares they bought sufficient to meet the shareholding requirement. Bronwyn Syiek and Deborah Davis are currently within the three year time period to build up their shareholding. Executive directors are required to retain half of any vested Company share plan options until the shareholding requirement is met.

	Shares held		Options held						
	Owened 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 directors²									
Gerard Ryan	799,625	1,082,559	184,655	27,257	-	-	200	318	Yes
Justin Lockwood	63,754	473,212	99,942	11,688	-	500	200	48	No
Non-executive directors³									
Deborah Davis	-	-	-	-	-	-	100	0	No
Tony Hales	75,000	-	-	-	-	-	100	280	Yes
John Mangelaars	35,000	-	-	-	-	-	100	131	Yes
Richard Moat	15,000	-	-	-	-	-	100	56	No
Cathryn Riley	14,795	-	-	-	-	-	100	55	No
Dan O'Connor	41,500	-	-	-	-	-	100	43	No
Bronwyn Syiek	-	-	-	-	-	-	100	0	No

1. Based on a share price of 205.6 pence, being the closing price on 31 December 2018 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 2018 and 27 February 2019.

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 the Company website www.ipfin.co.uk.

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

Director	Retail bond as at 31 December 2018
Cathryn Riley	£28,800

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

	Date of award	Awards held at 31 December 2017	Awarded in 2018	Exercised in 2018	Lapsed in 2018 ¹	Awards held at 31 December 2018	Performance condition period	Market price at date of grant (p)	Exercise price (p)	Exercise period
Gerard Ryan										
PSP	4 Mar 2014	12,839	-	(12,839)	-	-	1 Jan 2014 – 31 Dec 2016	525	233.5	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
	19 April 2018	-	408,162	-	-	408,162	1 Jan 2018 – 31 Dec 2020	248	-	19 Apr 2021 – 18 Apr 2028
CSOP	23 Mar 2016	10,224	-	-	-	10,224	1 Jan 2016 – 31 Dec 2018	282	293	23 Mar 2019 – 22 Mar 2026
DSP: Deferred	2 Mar 2015	56,112	-	(56,112)	-	-	-	432	233.5	-
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
Deferred	10 Apr 2018	-	102,043	-	-	102,043	-	246	-	-
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		1,053,837	510,205	(68,951)	(200,620)	1,294,471				

1. The March PSP, CSOP and DSP Matching 2015 all vested at 0%.

DIRECTORS' REMUNERATION REPORT CONTINUED

Executive directors' interests in the Company share options

	Date of award	Awards held at 31 December 2017	Awarded in 2018	Exercised in 2018	Lapsed in 2018 ¹	Awards held at 31 December 2018	Performance condition period	Market price date of grant (p)	Exercise price (p)	Exercise period
Justin Lockwood										
PSP	4 Mar 2014	2,005	-	(2,005)	-	-	1 Jan 2014 – 31 Dec 2016	525	233.5	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
	19 April 2018	-	219,716	-	-	219,716	1 Jan 2018 – 31 Dec 2020	248	-	19 Apr 2021 – 18 Apr 2028
CSOP	4 Mar 2014	500	-	-	-	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	2 Mar 2015	11,834	-	(11,834)	-	-	-	432	233.5	-
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
Deferred	10 Apr 2018	-	52,537	-	-	52,537	-	246	-	-
SAYE	23 Aug 2017	11,688	-	-	-	11,688	-	-	154	1 Nov 2022 – 31 May 2023
Total		360,675	272,253	(13,839)	(33,747)	585,342				

1. The March PSP, CSOP and DSP Matching 2015 all vested at 0%.

The mid-market closing price of the Company's shares on 31 December 2018 was 205.6 pence and the range during 2018 was 171.6 pence to 254.8 pence. The aggregate gains of directors arising from the exercise of options granted under the PSP and DSP in the year totalled £193,315.

Share dilution

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

LTIP and DSP awards are satisfied through the release of shares held in the Company's treasury account, details of which are shown on page 84.

Shareholder voting

The table below summarises voting outcomes at the 2016, 2017 and 2018 AGMs (% of total votes cast):

AGM		For	Against	Withheld ¹
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%
2018	Annual Remuneration Report	98.65%	1.35%	0.00%

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 £533,000 for 2019.

The base salary for the Chief Financial Officer will be set at £305,000 for 2019.

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 2019 LTIP awards in accordance with the 2017 Policy. The 2019 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 2016 will not vest in 2019.

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)
- Tony Hales
- Jayne Almond¹
- Richard Moat

1. Jayne Almond stepped down from the Committee and the Board at the conclusion of the 2018 AGM

The Committee received assistance from the Senior Management Group and 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 2018 total fees in respect of advice to the Committee (based on time and materials) totalled £45,530 (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

27 February 2019

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2016

Compliance with the UK Corporate Governance Code (the Code)

The Company complied with the provisions set out in the 2016 version of the Code, which applied throughout the financial year ended 31 December 2018. 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. The FRC released a revised 2018 Code in July 2018 which was applicable from 1 January 2019. At the heart of the 2018 Code is an updated set of principles that emphasise the value of good corporate governance to long-term sustainable success. We will report on how we have complied with the 2018 Code in our 2019 Annual Report and Financial Statements.

Leadership

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's role and work in 2018 can be found on pages 54 and 56. The Board met eight times during the year providing leadership and strategic direction. Our strategy can be found on pages 16 to 19 and our business model on pages 8 and 9.

There is a formal schedule of matters reserved specifically for decision by the Board which was reviewed and updated during the year. Other matters are delegated specifically to the 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. The committees' terms of reference are available on our website www.ipfin.co.uk.

The management of the business is delegated to the Executive Committee which comprises the Chief Executive Officer and the Chief Financial Officer. The Executive Committee met frequently during the year to consider matters relating to the day-to-day running of the business, where specific matters required approval.

The Disclosure Committee met several times during the year to consider announcement obligations to the London and Warsaw Stock Exchanges. During 2018, it comprised the Chief Executive Officer, the Chief Financial Officer and the Company Secretary.

Our governance framework extends to operational activities, with decision-making and oversight responsibilities delegated to Group governance committees.

Division of responsibilities

The roles of the Chairman and Chief Executive Officer are clearly defined and the division of responsibilities is established. The Chairman is responsible for the leadership and effectiveness of the Board.

He is also responsible for effective running of the Board and its committees in accordance with corporate governance standards. He is responsible for ensuring that consideration is given to the main challenges and opportunities facing the Company, and facilitates open and constructive discussion during meetings. The Chairman was independent on his appointment.

The Chief Executive Officer is responsible for setting and executing the strategy effectively, and managing the Group's businesses.

Non-executive directors

The independent non-executive directors are appointed for an initial period of three years, subject to annual re-election by shareholders at the AGM. The initial period may be extended for a further three-year period following recommendation by the Nomination Committee. Their letters of appointment may be inspected at our registered office and copies are available from the Company Secretary.

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 conscious that he will have served more than 11 years as a director at the time of the 2019 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 judgement, and that his experience remains invaluable to the Company. As previously announced, Tony will be stepping down from the Board and will not be seeking re-election at the 2019 AGM.

Richard Moat will succeed Tony Hales as the senior independent director at the conclusion of the 2019 AGM, subject to Richard being re-elected. He will be 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 and will consult with other Board members, as part of the review, and will 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.

If directors have concerns about the running of the Company, which cannot be resolved, their concerns are recorded in the Board minutes. There have been no concerns raised during the period under review.

Effectiveness

The composition of the Board

The Board believes it operates effectively with the appropriate balance of independent non-executive and executive directors who have the right mix of skills, experience and knowledge of the Group. The Nomination Committee is responsible for regularly reviewing the composition of the Board. Details of the Board can be found on pages 52 and 53.

Deborah Davis and Bronwyn Syiek were appointed as non-executive directors on 18 October 2018. Further detail relating to the recruitment process for them and the selection of the prospective new senior independent director can be found in the Nomination Committee report on page 58.

Commitment

Our policy is that the Chairman and the non-executive directors should have sufficient time to fulfil their duties. A non-executive director should not hold more than four other material non-executive

directorships. If they hold an executive role in a FTSE 350 company, they 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 or her executive responsibilities adversely. The executive directors currently do not hold any external directorships.

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 their required commitment to the Company.

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 as part of the Board evaluation process. Training also covers generic and specific business topics and in 2018 included presentations to the Board on subjects including the UK Corporate Governance Code, Fintech regulation, cyber security and the General Data Protection Regulation. A comprehensive, individually tailored induction plan is prepared for new directors and was undertaken by Deborah Davis and Bronwyn Syiek following their appointments, including market visits. The Board also visited Poland and received updates from the home credit and IPF Digital management teams in this market, and updates were received from other market leaders in scheduled Board meetings. Individual directors have visited other markets and businesses during the year.

All directors are able to consult with the Company Secretary, who also updates the Board on governance developments. The appointment and removal of the Company Secretary is a matter for the Board. The Company Secretary acts as secretary to the Board and its committees. Any director may take independent professional advice at the Company's expense relating to the performance of their duties.

Evaluation

In 2018, 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 January 2019 Board meeting. Details of the principal outcomes relating to the Board can be found on page 57.

An external evaluation is required by the Code at least every three years and was last undertaken in 2016. We intend to carry out our next externally facilitated evaluation during 2019.

Election or re-election of directors

All directors are subject to election or re-election at the AGM, in accordance with the Code. Deborah Davis and Bronwyn Syiek will seek election and all other directors, with the exception of Tony Hales, re-election at our AGM on 2 May 2019. Details of the directors can be found on pages 52 and 53.

Accountability

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 90. The Group's business model and strategy, key

performance indicators and relevant risks are on pages 8 and 9, 16 and 19, 24 and 25, and 42 to 50. 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 Group's position, performance, business model and strategy is on page 90.

Risk management and internal control

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten our business model, future performance, solvency or liquidity. Details can be found on pages 42 to 50. The Board determines the Group'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 2018.

Audit and Risk Committee and auditors

The Audit and Risk Committee report is on pages 60 to 65 and sets out how the Committee discharges its duties, its activities during the year, and its interactions with the external auditor. The Board is satisfied that Richard Moat, chairman of the Committee, has recent and relevant financial experience.

Remuneration

Remuneration policy

Development of the policy on executive remuneration is delegated to the Remuneration Committee. Details of the Company's policy on remuneration are contained in the Directors' Remuneration report on pages 67 to 81. No director is involved in deciding his or her own remuneration. The remuneration policy is available on our website at www.ipfin.co.uk.

Relations with shareholders

Dialogue with shareholders

The executive directors communicate regularly with institutional shareholders. 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 Board 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 major 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 at www.ipfin.co.uk. Shareholders 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.

The AGM provides a key opportunity for the Board to meet and communicate with shareholders. Shareholders can ask questions of the Board on matters put to the meeting, including the Annual Report and the running of the Company.

In January 2019, the Company communicated with our major institutional investors, in relation to proposed remuneration of our executive directors for 2019, as part of our commitment to build and maintain an effective dialogue on pay.

OTHER STATUTORY INFORMATION

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

In accordance with DTR 4.1.5R, the Strategic Report and the Directors' Report together are the management report for the purposes of DTR 4.1.8R.

There are no disclosures to be made under LR 9.8.4R.

The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic Report including:

- the financial position of the Group;
- principal risks and uncertainties; and
- the future development, performance and position of the Group.

Articles of Association (Articles)

The Articles may only be amended by a special resolution at a general meeting of the shareholders. The Articles are available on our website at www.ipfin.co.uk or direct from Companies House, UK.

Shares in issue

As at 31 December 2018, the issued share capital was 234,244,437 ordinary shares of 10 pence each. No ordinary shares were issued during the year. No shares were purchased by the Company, transferred to treasury or cancelled. The ordinary shares can be held in certificated or uncertificated form.

10,601,830 shares are held as treasury shares for the purpose of satisfying options under the Group's share option plans. Details of share capital are shown in note 27 to the Financial Statements. The ordinary shares are listed on the London Stock Exchange and Warsaw Stock Exchange.

Share class rights

The share class rights, which are set out in the Company's Articles, are summarised below.

Restrictions on shareholders' rights

Any share may have rights attached to it as the Company may decide by ordinary resolution or the Board may decide, if no such resolution has been passed. Such rights and restrictions shall apply to the relevant shares as if the same were set out in the Articles.

Restrictions on transfer of shares and limitations on holdings

There are no restrictions on the transfer or limitations on the holding of ordinary shares other than under the Articles or under restrictions imposed by law or regulation. The Articles set out the directors' rights of refusal to effect a transfer of any share.

Voting rights

There are no restrictions on voting rights except as set out in the Articles. Electronic and paper proxy appointments, and voting instructions, must be received by the Company's registrar not less than 48 hours before a general meeting.

Variation of rights

This covers the rights attached to any class of shares that from time to time may be varied either with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Authority to purchase own shares

At the 2018 AGM, we received shareholder authority to buy back up to 22,335,937 of the Company's shares until the earlier of the conclusion of the 2019 AGM or 30 June 2019. Any ordinary shares purchased could be cancelled or held in treasury. This authority was not exercised in 2018. A further authority to purchase our own shares will be sought at the 2019 AGM.

Authority to issue shares

At the 2018 AGM, an ordinary resolution was passed authorising the directors to issue new shares up to a nominal value of £7,445,000, equivalent to one-third of the issued share capital of the Company. A further special resolution was passed to effect a disapplication of pre-emption rights in certain circumstances.

Resolutions to renew these authorities will be proposed at the 2019 AGM.

Interests in voting rights

As at 31 December 2018, we had been notified, pursuant to DTR 5.1.2, of the following interests in voting rights in our issued share capital. The information provided below was correct at the date of notification, however, the date of receipt may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. A notification of any change is not required until the next notifiable threshold is crossed.

Name	Date notified	% of issued share capital ¹
Standard Life Aberdeen plc	13/12/2018	12.01
FIL Limited	04/07/2016	6.31
FMR LLC	10/01/2018	5.28
Norges Bank	23/10/2018	4.36
Marathon Asset Management LLP	14/05/2009	5.01
Aberforth Partners LLP	03/08/2015	5.01
Old Mutual Asset Managers (UK) Ltd	12/04/2010	4.88
Schroders plc	17/03/2014	5.01
BlackRock, Inc.	16/07/2009	4.54
Investec Asset Management Ltd	03/08/2009	3.50
Oppenheimer Funds Inc/Baring Asset Management Ltd	26/06/2009	3.02
BNP Paribas Investment Partners	08/07/2015	3.02

As at 27 February 2019, the following shareholder had notified an interest in our issued share capital in accordance with the DTR.

Name	Date notified	% of issued share capital ¹
Standard Life Aberdeen plc	19/02/2019	12.38

1. The percentage of issued share capital in the table above is based on the Company's issued share capital at the point of notification.

Directors

Details of the current directors can be found on pages 52 and 53. Jayne Almond, who was a non-executive director, did not seek re-election at the 2018 AGM and stepped down from the Board. Deborah Davis and Bronwyn Syiek were appointed as non-executive directors on 18 October 2018. Tony Hales will be stepping down from the Board and will not be seeking re-election at the 2019 AGM.

Indemnities

Our Articles permit us to indemnify our directors (or those of any associated company) in accordance with the Act. However, no qualifying indemnity provisions were in force in 2018 or at any time up to 27 February 2019. We have appropriate directors' and officers' liability insurance and this was in force when the Directors' Report was approved.

Directors' conflicts of interest

To take account of the Act, 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 2018 and up to 27 February 2019.

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 the Articles. The Articles contain specific provisions and restrictions regarding the following: the Company's powers to borrow money; provisions relating to the appointment of directors (subject to subsequent shareholder approval); and delegation of powers to a director or committees. They also provide that, 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.

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 Note¹ 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 Note² 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 equity 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 or Nasdaq Stockholm stock exchanges) have been issued under the programme and are outstanding as at the date of this report: sterling 101.5 million issued in May 2013 and November 2013 with a seven-year term and a 6.125% coupon; euro 300 million issued in April 2014 with a seven-year term and a 5.75% coupon; euro 100 million 'tap' of our existing Eurobond issued in April 2015 with a six-year maturity and a 5.75% coupon; Romanian lei 79.5 million bond issued in December 2016 with a three-year term and an 8.0% coupon (listed on the Irish Stock Exchange); 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, and a SEK450 million Swedish krona bond issued in June 2018 with a four-year term and a coupon of three-month STIBOR plus a margin of 8.75%.
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.

Employee equity incentive plans

Eligible employees are able to participate in our equity share incentive plans, which are shown below. We encourage employees to take part in our Save As You Earn (SAYE) plan which gives employees the opportunity to buy shares in the Company and share in our long-term success.

Awards granted to the executive directors in 2018 are set out in the Directors' Remuneration report on pages 76 and 77.

Plan	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 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 included in note 26 to the Financial Statements.

Related party transactions

Related party transactions are set out in note 31 to the Financial Statements.

Financial instruments

Details of the Group's financial instruments are set out in note 22 to the Financial Statements.

Dividends

A final dividend of 7.8 pence per share has been proposed bringing the full year dividend to 12.4 pence per share. The final dividend will be payable on 10 May 2019 to shareholders on the register of members on 12 April 2019.

Employees

Employee engagement and communication

We have a proactive approach to employee communication which is at the heart of our commitment to engage effectively and transparently. Our CEO hosts webinars and 'town hall' meetings to inform, educate and engage employees and includes presentations on the full- and half-year results. Local focus groups and 'skip a level' meetings are held to aid communication of key messages and obtain views and ideas. Collaboration is one of our most important capabilities and we encourage open and supportive communications at all levels.

We increasingly use technology to create international networks and to manage virtual teams. We encourage active participation in the sharing of experiences and the creation of in-house online news bulletins. Local employee surveys are conducted in each of our markets.

In 2019, we will commence a Group-wide employee survey to help measure our employee engagement activities as well as identify areas for improvement. The Board will continue to focus on stakeholder engagement more widely over the next year, following the appointment of Bronwyn Syiek as the Board's workforce and stakeholder engagement director, in order to build on our stakeholder engagement activities.

Employee benefit trust

We operate an employee benefit trust with an independent trustee, Link Trustees (Jersey) Limited, to hold shares on behalf of employees pending entitlement to them under our equity incentive plans. On 31 December 2018, the trustees held 389,551 shares in International Personal Finance plc. The trust waives its dividend entitlement and abstains from voting at general meetings. Any shares to be acquired through our share plans do not have special rights and rank *pari passu* with the shares already in issue.

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

Information relating to diversity and gender, human rights, and Board diversity is shown on pages 34, 36 and 58. Our Modern Slavery Act 2015 statement is available on our website at www.ipfin.co.uk.

Whistle-blowing service

We have a whistle-blowing service that is operated by a third party. Employees are able to raise concerns about possible improprieties in matters relating to financial reporting or otherwise, on a confidential and, if preferred, anonymous basis. The use of this service is monitored throughout the Group and we receive reports on any matters raised. The reports are reviewed and acted on independently to the parties involved, to the point of resolution. The service was revised during the year and is being enhanced.

Anti-bribery policy

The Group is committed to conducting its affairs in an ethical manner and to ensuring that its trading activities are conducted with honesty and integrity, while ensuring compliance with relevant anti-bribery and corruption legislation, in any jurisdiction where the Group operates. Internal controls and procedures are in place to ensure that no one acting on our behalf:

- offers, promises or gives a bribe;
- requests, agrees to accept or receives a bribe; or
- bribes a public official to obtain or retain business or an advantage.

All employees must complete anti-bribery and corruption training.

Other external stakeholders

External oversight

The Group's activities in Mexico and Spain are subject to general trade licences only. Our operations in Europe and Australia are subject to certain licensing provisions or supervision by a financial authority as detailed below.

European home credit

- Czech Republic – granted a licence by Czech National Bank in February 2018
- Hungary – subject to an operating licence issued by the Hungarian National Bank
- Poland – registered in special registry of the Komisja Nadzoru Finansowego (the Polish Financial Supervision Authority)
- Romania – under the supervision of the National Bank of Romania following its registration in early 2018 in the Special Registry of credit providers

IPF Digital

- Australia – holds a credit licence issued by the Australia Securities and Investment Commission
- Estonia – licence issued by the Estonian Financial Supervision Authority
- Finland – in a register of credit providers maintained by the Regional State Administrative Agency of South Finland
- Latvia – operates under a licence from the Consumer Rights Protection Centre
- Lithuania – in a register of credit providers maintained by the Bank of Lithuania
- Poland – registered in the special register of the Komisja Nadzoru Finansowego (the Polish Financial Supervision Authority).

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 Chief Financial Officer and Group Financial Controller. 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 environmental, 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 Group'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 contributes to the sustainable long-term value of the Group. ESG issues are handled through a number of forums and reporting processes across the business which include the Risk Advisory Group, the Senior Management Group and performance calls. Key ESG issues that have an impact on our stakeholders include: business ethics; public perception and ensuring that work with communities is relevant; social and financial inclusion; 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 2018. The Board has received adequate information to make an assessment against ESG risks.

There is a range of appropriate corporate standards, policies and governance structures covering all operations. The Group's policy regarding equal opportunities is on page 87.

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 all home credit markets, together with Group head office, were certified as compliant. 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.

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

Sixty-two per cent of our community investment focused on education and 23% on social welfare. Employees volunteered 5,611 hours in Company time (2017: 3,056) and a further 8,732 hours in their own time. Employees also raised a further £76,000 for community investment purposes. In total, we invested £729,000 (2017: £680,000) in supporting local communities in 2018.

The Group policy is that we do not make political donations and, as such, no political donations were made during the year.

The Remuneration Committee takes account of ESG risks that could inadvertently cause unethical business practices, when setting short- and long-term incentives and when setting performance targets in relation to remuneration packages. Details of our incentive arrangements are set out in the Directors' Remuneration Report on page 67 to 81. ESG matters are also taken into account when providing training for directors.

Full information on specific ESG matters, and how these are managed, can be found in the Sustainability section of our website at www.ipfin.co.uk.

Managing our emissions

We recognise that the consequences of climate change are significant and are being felt globally. We aim to reduce our environmental impact where possible. Our fleet strategy and our MyProvi collections application are instrumental in helping us to achieve this. Our fleet vehicles, which play an integral role in serving our home credit customers, are under regular review to achieve incremental reductions in fuel consumption and CO₂ emissions. In 2018, we continued offering driver training and introducing in-car technologies where possible to promote the adoption of fuel-efficient driving techniques among our drivers.

Furthermore, with the rollout of e-receipting in Czech Republic and Poland, we reduced paper consumption in both countries. During 2019, we expect to see even greater paper savings and less printing with the implementation of digital receipting in Hungary and Romania.

A full environmental policy statement and information on specific ESG matters can be found in the Sustainability section of our website at www.ipfin.co.uk.

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 GHG conversion factors¹ and the current edition of the IEA emission factors for non-UK electricity. The emissions data covers all our offices. These sources fall within our Consolidated Financial Statements. Where available data is incomplete we have extrapolated data.

This year, our GHG emissions for scope 1 and 2 decreased by 2%. This is attributable to a decrease in business travel by car, due to a reduction in car fleet, and lower electricity consumption following office consolidations in some of our European businesses.

Our 2017 Annual Report included some estimates for 2017 carbon emissions data. These estimates have been updated for the 2018 Annual Report.

Our carbon emissions report has been reviewed by Ricardo Energy & Environment. We aim to further improve our environmental data collection and management system by considering recommendations from this review.

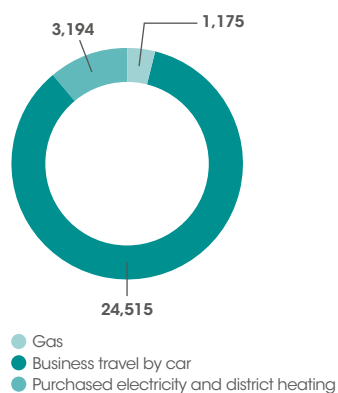
Carbon emissions sources	Travel and utilities	Tonnes CO ₂ e		%
		2017	2018	
Scope 1	Gas	1,135	1,175	3.5
	Business travel by car	24,969	24,515	(1.8)
Scope 2	Purchased electricity and district heating	3,357	3,194	(4.9)
Scope 1 & 2		29,461	28,884	(2.0)
	CO ₂ e emissions per customer	0.012	0.013	2.9

Note: Scope 2 carbon emissions have been calculated using location-based methodology. IEA electricity emission factors have been used for non-UK countries for more precise accounting. Note that the IEA electricity factors are for CO₂ and not CO₂ equivalent (CO₂e).

Scope 2 carbon emissions have not been calculated using market-based methodology because our offices tend to be a small part of larger managed premises, with energy costs included as part of the overall rent. Therefore, IPF gathering details of the specific energy supply for its offices accurately would not be possible.

1. <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2018>

Total CO₂ emissions 2018 (Tonnes CO₂e)



RESPONSIBILITY STATEMENTS

Annual Report and Financial Statements

International Personal Finance plc presents its Annual Report and Financial Statements and its consolidated Annual Report and Financial Statements 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 under the Disclosure and Transparency Rules

Each of the persons who is a director at the date of approval of this report confirms to the best of his/her knowledge that:

- a. the Financial Statements, prepared in accordance with 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 and Directors' 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, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Report review process for Annual Report

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 is 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 and viability statement

The Board statement on its adoption of the going concern basis in preparing these Financial Statements and the viability statement concerning the assessment of the Company's long-term prospects is given on pages 41 and 50.

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 2018 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

27 February 2019

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 of International Personal Finance plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 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 which comprise:

- the Group 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 32.

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.

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 Financial Reporting Council (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 going concern

- We have reviewed the directors' statement within the statement of accounting policies 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 twelve months from the date of approval of the Financial Statements.
- We considered as part of our risk assessment the nature of the Group, its business model and related risks included where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the director's assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.
- 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none">• revenue recognition;• impairment of receivables; and• the Polish Debt Option Agreement Challenge. 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 ◀▶.
Materiality	The materiality that we used for the Group Financial Statements was £5.4 million which was determined on the basis of 5% of profit before tax.
Scoping	We focused our Group audit primarily on the audit work at seven locations, six of which were subject to a full audit and the remaining one was subject to testing of specific balances.
Significant changes in our approach	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 92.

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 42-50 that describe the principal risks and explain how they are being managed or mitigated;
- the directors’ confirmation on page 50 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 50 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 consistent 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.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>◀▶ Revenue Recognition</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 over reflecting early redemptions experience and all contractual terms of the loan in the calculation of the EIRs. We have identified this as a specific risk of fraud in accordance with ISA (UK) 240.</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, particularly following the first-time adoption of IFRS 9 during the period, 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 62 and within the key sources of estimation uncertainty on page 108.</p>	<p>We evaluated the design and implementation, and tested operating effectiveness, of controls relevant to the revenue recognition cycle, as well as the mechanical accuracy of the models used by management to calculate the effective interest rates. This involved using IT specialists to recalculate 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 judgements used to calculate the effective interest rate by reference to the impact of recently observable collections phasing and early redemption behaviour on the behavioural lives of loan receivables.</p> <p>We also assessed whether the revenue recognition policies applied to all material loan types offered by the Group were appropriate and in accordance with IFRS 9 and other applicable accounting standards.</p>	<p>As a result of our audit testing, we found that the methodology used for calculating the EIR is materially accurate and complete in the context of the Group's accounting policies and the requirements of the relevant accounting standards.</p>

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>◀▶ Impairment of receivables</p> <p>Determining impairment provisions against customer receivables is highly judgemental, requiring estimates to be made of the likely loss within the lending portfolios. In addition, the first-time adoption of IFRS 9 during the period, which requires the application of an expected loss model, resulted in the application of a parameter-based methodology that resulted in a day one reduction in equity of £107.4 million. As detailed in note 16, net customer receivables amounts to £992.8 million as of 31 December 2018 (2017: £1,056.9 million).</p> <p>Key judgements include probabilities of – and exposures at – defaults, loss given defaults and post-model overlays. We have identified the key risk around impairment of receivables as being the completeness and accuracy of the post-model overlays made to account for emerging risks not yet fully observed in the data.</p> <p>There is a potential risk of fraud inherent in the application of the post model overlay due to its judgemental nature and material quantum of the amount of post model-overlays held in the balance sheet.</p> <p>The key audit matter is described further by the Audit and Risk Committee on page 62 and within the key sources of estimation uncertainty on page 108. Please also see note 16 for further information.</p>	<p>We evaluated the design, and tested the operating effectiveness, of controls relevant to the impairment provisioning process, including the use of IT specialists to test the key IT controls over the systems in which the source customer receivable data is maintained, and reviewing minutes from key governance forums.</p> <p>Where necessary, we also tested the completeness and accuracy of information used in key lending controls, which included extraction of source data from the core lending systems and independent recalculation of the relevant information.</p> <p>We have reviewed and challenged management's approved impairment provisioning policy against the requirements of IFRS 9, and assessed whether management's approach is consistent with those applied by other similar financial institutions.</p> <p>We evaluated the appropriateness of management's key assumptions used in the impairment calculations, including probability of default, exposure at default and loss given default. This involved us re-calculating a sample of these assumptions using independent extracts of customer receivable collections data. We also challenged the appropriateness of using historical data to predict future collections performance, with reference to our understanding of internal and external factors affecting the Group's businesses. We subsequently tested the mechanical accuracy of the provisioning approach on a sample of portfolio carrying values.</p> <p>Finally, we reviewed and challenged the completeness and accuracy of management's provisioning overlays, with reference to analysis of recent collections performance, other identified impairment risks and analysis of internal and external data for each of the Group's material markets.</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>
<p>◀▶ The Polish Debt Option Agreement Challenge</p> <p>IPF Poland is subject to a corporation tax inspection covering the 2008 to 2012 tax years. In relation to the 2008 and 2009 tax years, the Group paid £36.1 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 <i>Income Taxes</i>.</p> <p>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') on 25 October 2017, 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 under IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p>The key audit matter is described further by the Audit and Risk Committee on page 62 and within the key assumptions and estimates, and contingent liabilities notes on pages 108 and 135.</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, including the impact of Brexit on the MAP process, 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	£5.4 million (2017: £5.0 million)	£2.7 million (2017: £2.5 million)
Basis for determining materiality	5% (2017: 5%) of forecast profit before tax.	3% (2017: 3%) of net assets, capped at 50% of Group materiality.
Rationale for the benchmark applied	The accumulation of profit 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 £0.27 million (2017: £0.25 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit 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 specific balances. The locations were based across Central Europe with the exception of Mexico. The scope of our audit is consistent with that from the previous period, due to there being no significant changes in the Group's international business.

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 95% (2017: 96%) of the Group's net assets, 96% (2017: 95%) of the Group's revenue and 95% (2017: 99%) of the Group's profit before tax.

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified as key audit matters 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 £2.2 million to £3.0 million (2017: £2.0 million to £2.9 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 Mexico and 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 position and 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.

We have nothing to report in respect of these matters.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including component audit teams and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: loan impairment and revenue recognition assumptions, due to the potential for management to manipulate highly judgemental assumptions; and agent cash balances, due to the possibility of misappropriation of assets; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act 2006, the London Stock Exchange Listing Rules and the various regulatory regimes the Group operates under across the territories in which it operates.

Audit response to risks identified

As a result of performing the above, we identified revenue recognition, impairment of receivables and the Polish DOA Challenge as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Group's regulators in each of its significant territories;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 of 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.

We have nothing to report in respect of these matters.

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.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the members of International Personal Finance plc 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 eight years, covering the years ending 31 December 2011 to 31 December 2018.

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).

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.

Peter Birch

FCA (Senior statutory auditor)
Statutory Auditor
Leeds, United Kingdom

27 February 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December

Group	Notes	2018 £m	2017 £m
Revenue	1	866.4	825.8
Impairment	1	(227.0)	(201.1)
Revenue less impairment		639.4	624.7
Finance costs	2	(58.5)	(55.2)
Other operating costs		(140.8)	(135.2)
Administrative expenses		(330.8)	(328.7)
Total costs		(530.1)	(519.1)
Profit before taxation – continuing operations	1	109.3	105.6
Tax expense – UK		(0.8)	(0.7)
Tax expense – overseas		(33.1)	(29.9)
Total pre-exceptional tax expense	5	(33.9)	(30.6)
Profit after pre-exceptional taxation – continuing operations		75.4	75.0
Exceptional tax expense	5	-	(30.0)
Profit after taxation – continuing operations		75.4	45.0
Loss after taxation – discontinued operations	10	-	(8.4)
Profit after taxation attributable to owners of the Company		75.4	36.6

Group	Notes	2018 pence	2017 pence
Earnings per share – continuing operations			
Basic	6	33.8	20.2
Diluted	6	32.2	19.5

Group	Notes	2018 pence	2017 pence
Earnings per share – including discontinued operations			
Basic	6	33.8	16.5
Diluted	6	32.2	15.8

See note 6 for further information on Earnings per share.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Profit/(loss) after taxation attributable to owners of the Company		75.4	36.6	(32.3)	(21.5)
Other comprehensive (expense)/income					
<i>Items that may subsequently be reclassified to income statement</i>					
Exchange (losses)/gains on foreign currency translations		(8.7)	51.3	-	-
Net fair value gains/(losses) – cash flow hedges		0.3	(2.5)	1.0	(1.5)
Tax credit/(charge) on items that may be reclassified	5	0.3	0.2	(0.1)	0.1
<i>Items that will not subsequently be reclassified to income statement</i>					
Actuarial gains on retirement benefit obligation	25	1.1	10.3	1.1	10.3
Tax charge on items that will not be reclassified	5	(0.2)	(1.9)	(0.2)	(1.9)
Other comprehensive (expense)/income net of taxation		(7.2)	57.4	1.8	7.0
Total comprehensive income/(expense) for the year attributable to owners of the Company		68.2	94.0	(30.5)	(14.5)

The accounting policies and notes 1 to 32 are an integral part of these Financial Statements.

BALANCE SHEETS

as at 31 December

	Notes	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Assets					
<i>Non-current assets</i>					
Goodwill	11	24.5	24.4	-	-
Intangible assets	12	38.0	33.1	-	-
Investment in subsidiaries	13	-	-	728.1	725.5
Property, plant and equipment	14	19.9	23.2	-	-
Deferred tax assets	15	138.5	103.1	-	0.1
Non-current tax assets	30	36.1	37.0	-	-
Retirement benefit asset	25	4.1	2.1	4.1	2.1
		261.1	222.9	732.2	727.7
<i>Current assets</i>					
Amounts receivable from customers:					
- due within one year		764.2	866.9	-	-
- due in more than one year		228.6	190.0	-	-
	16	992.8	1,056.9	-	-
Derivative financial instruments	22	1.6	10.4	-	3.5
Cash and cash equivalents	17	46.6	27.4	0.1	-
Other receivables	18	18.9	19.3	667.4	695.5
Current tax assets		1.5	5.7	-	-
		1,061.4	1,119.7	667.5	699.0
Total assets		1,322.5	1,342.6	1,399.7	1,426.7
Liabilities					
<i>Current liabilities</i>					
Borrowings	20	(28.8)	(79.6)	(18.9)	(67.5)
Derivative financial instruments	22	(7.3)	(4.8)	(0.1)	(0.1)
Trade and other payables	19	(147.7)	(145.7)	(418.4)	(343.5)
Current tax liabilities		(25.8)	(7.4)	-	-
		(209.6)	(237.5)	(437.4)	(411.1)
<i>Non-current liabilities</i>					
Deferred tax liabilities	15	(10.4)	(10.1)	(0.1)	-
Borrowings	20	(669.5)	(598.1)	(510.3)	(508.5)
		(679.9)	(608.2)	(510.4)	(508.5)
Total liabilities		(889.5)	(845.7)	(947.8)	(919.6)
Net assets		433.0	496.9	451.9	507.1
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		51.3	60.0	-	-
Hedging reserve		(0.6)	(1.2)	0.1	(0.8)
Own shares		(45.1)	(47.6)	(45.1)	(47.6)
Capital redemption reserve		2.3	2.3	2.3	2.3
Retained earnings		424.2	482.5	244.9	303.5
Total equity		433.0	496.9	451.9	507.1

The accounting policies and notes 1 to 32 are an integral part of these Financial Statements.

The loss after taxation of the Parent Company for the period was £32.3 million (2017: loss of £21.5 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 32 were approved by the Board on 27 February 2019 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 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
At 1 January 2018 as originally presented		23.4	(22.5)	60.0	(1.2)	(47.6)	2.3	482.5	496.9
Change in accounting policy (see note 32)		-	-	-	-	-	-	(107.4)	(107.4)
Restated at 1 January 2018		23.4	(22.5)	60.0	(1.2)	(47.6)	2.3	375.1	389.5
<i>Comprehensive income</i>									
Profit after taxation for the year		-	-	-	-	-	-	75.4	75.4
<i>Other comprehensive (expense)/income</i>									
Exchange losses on foreign currency translation		-	-	(8.7)	-	-	-	-	(8.7)
Net fair value gains – cash flow hedges		-	-	-	0.3	-	-	-	0.3
Actuarial gain on retirement benefit obligation	25	-	-	-	-	-	-	1.1	1.1
Tax credit/(charge) on other comprehensive income	5	-	-	-	0.3	-	-	(0.2)	0.1
Total other comprehensive (expense)/income		-	-	(8.7)	0.6	-	-	0.9	(7.2)
Total comprehensive (expense)/income for the year		-	-	(8.7)	0.6	-	-	76.3	68.2
<i>Transactions with owners</i>									
Share-based payment adjustment to reserves		-	-	-	-	-	-	3.0	3.0
Shares granted from treasury and employee trust		-	-	-	-	2.5	-	(2.5)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	-	(27.7)	(27.7)
At 31 December 2018		23.4	(22.5)	51.3	(0.6)	(45.1)	2.3	424.2	433.0

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 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 (expense)/income</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
At 1 January 2018		23.4	226.3	(0.8)	(47.6)	2.3	303.5	507.1
<i>Comprehensive income</i>								
Loss after taxation for the year		-	-	-	-	-	(32.3)	(32.3)
<i>Other comprehensive income/(expense)</i>								
Net fair value gains – cash flow hedges		-	-	1.0	-	-	-	1.0
Actuarial gains on retirement benefit obligation	25	-	-	-	-	-	1.1	1.1
Tax charge on other comprehensive income		-	-	(0.1)	-	-	(0.2)	(0.3)
Total other comprehensive income		-	-	0.9	-	-	0.9	1.8
Total comprehensive income/(expense) for the year		-	-	0.9	-	-	(31.4)	(30.5)
<i>Transactions with owners</i>								
Share-based payment adjustment to reserves		-	-	-	-	-	3.0	3.0
Shares granted from treasury and employee trust		-	-	-	2.5	-	(2.5)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	(27.7)	(27.7)
At 31 December 2018		23.4	226.3	0.1	(45.1)	2.3	244.9	451.9

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 32 are an integral part of these Financial Statements.

CASH FLOW STATEMENTS

for the year ended 31 December

		Group		Company	
	Notes	2018 £m	2017 £m	2018 £m	2017 £m
<i>Cash flows from operating activities</i>					
Continuing operations					
Cash generated from operating activities	28	141.6	143.6	97.7	9.2
Finance costs paid		(59.6)	(54.7)	(58.4)	(46.9)
Finance income received		-	-	37.9	39.0
Income tax paid		(21.8)	(94.0)	(1.6)	(1.3)
Discontinued operations		-	(2.7)	-	-
Net cash generated from/(used in) operating activities		60.2	(7.8)	75.6	-
<i>Cash flows from investing activities</i>					
Continuing operations					
Purchases of property, plant and equipment	14	(6.7)	(10.1)	-	-
Proceeds from sale of property, plant and equipment		0.3	0.7	-	-
Purchases of intangible assets	12	(19.3)	(14.9)	-	-
Purchases of shares in subsidiary		-	-	-	(25.5)
Discontinued operations		-	3.0	-	-
Disposal of subsidiary, net of cash and cash equivalents		-	3.0	-	-
Net cash used in investing activities		(25.7)	(21.3)	-	(25.5)
Net cash generated from/(used in) operating and investing activities		34.5	(29.1)	75.6	(25.5)
<i>Cash flows from financing activities</i>					
Continuing operations					
Proceeds from borrowings		101.9	92.5	32.3	58.1
Repayment of borrowings		(89.7)	(53.2)	(80.1)	(8.9)
Dividends paid to Company shareholders	7	(27.7)	(27.6)	(27.7)	(27.6)
Net cash (used in)/generated from financing activities		(15.5)	11.7	(75.5)	21.6
Net increase/(decrease) in cash and cash equivalents		19.0	(17.4)	0.1	(3.9)
Cash and cash equivalents at beginning of year		27.4	43.4	-	3.9
Exchange gains on cash and cash equivalents		0.2	1.4	-	-
Cash and cash equivalents at end of year	17	46.6	27.4	0.1	-
Cash and cash equivalents at end of year comprise:					
Cash at bank and in hand	17	46.6	27.4	0.1	-

The accounting policies and notes 1 to 32 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 144.

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 106.

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 2018 but do not have any material impact on the Group:

- IFRS 15 'Revenue from contracts with customers (and the related clarifications)';
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 'Transfers of investment property'; and
- IFRS 2 (amendment) 'Classification and Measurement of Share-based Payment Transactions'.

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the Group:

- Amendments to IAS19 Employee Benefits – plan amendment, curtailment or settlement;
- IFRS 16 'Leases' (for more detail see below); and
- IFRIC23 'Uncertainty over Income Tax Treatments'.

IFRS16 Leases

IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements 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 date of initial application of IFRS 16 for the Group will be 1 January 2019.

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 measured initially at cost and measured subsequently at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is measured initially 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.

The Group has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of £29.0 million, see note 29. The Group's preliminary assessment is that it will recognise right-of-use assets of approximately £22 million on 1 January 2019 and lease liabilities of £22 million, overall there will be a £nil impact on net assets. Net current assets will be approximately £7 million lower due to the presentation of a portion of the liability as a current liability. The Group's activities as a lessee are not material and hence the Group does not expect any significant impact on the Financial Statements. The impact of IFRS 16 on the profit and loss account in 2019 is not expected to be significant.

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 138-143 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.

A full reconciliation of the 2017 profit and loss account between the IAS 39 reported numbers and the IFRS 9 numbers is included within these APMs.

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 41.

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 – European home credit, Mexico home credit 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 reflecting all contractual terms using estimated cash flows, being contractual payments adjusted for the impact of customers paying early.

Directly attributable issue costs are also taken into account in calculating the EIR. Interest income is accrued on all receivables using the original EIR applied to the loan's carrying value. Revenue is calculated using the EIR on the gross receivable balance for loans in stages 1 and 2. For loans in stage 3, the calculation is applied to the net receivable from the start of the next reporting period after the loan entered stage 3. Revenue is capped at the amount of interest income charged.

ACCOUNTING POLICIES 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

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 is 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 is no change in the accounting for any financial liabilities.

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.

Amounts receivable from customers

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 cost, namely amounts receivable from customers.

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 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 in home credit and 60 days past due on their contractual payments in IPF Digital;
- 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 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.

In some markets, the most recent impairment parameters are not considered to be representative of expected future performance due to changes in operational performance. Therefore an overlay has been applied to increase certain parameters at both 1 January 2018 and 31 December 2018.

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.

ACCOUNTING POLICIES CONTINUED

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 recognised initially as an asset at cost and is measured subsequently 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 cash flows from the legacy MCB Finance 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.

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 attributable directly 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 sources of estimation uncertainty

The preparation of Consolidated Financial Statements requires the Group to make estimates and judgements that affect the application of policies and reported accounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical

ACCOUNTING POLICIES CONTINUED

accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

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.

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 on historical data and are reviewed regularly. Based on a 3% variation in the EIR, it is estimated that the amounts receivable from customers would be higher/lower by £12.1 million (2017: Based on a 1% variation in the EIR, £3.1 million). This sensitivity is based on historic fluctuations in EIRs. EIRs are subject to more fluctuations under IFRS 9 than under IAS 39 due to all contractual terms being included in the EIR calculation. (2018 fluctuations based on IFRS 9; 2017 fluctuations based on IAS 39).

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.

For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into stages based on days past due as this is considered to be the most reliable predictor of future payment performance. The level of impairment is calculated using historical payment performance to generate both the estimated expected loss and also the timing of future cash flows for each agreement. The expected loss is calculated using probability of default and loss given default parameters.

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, at least twice per year. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating expected losses and the future cash flows, an adjustment to the amounts receivable from customers may be required.

The table below shows the estimated variation to the amounts receivable from customers in the event that loss given default parameters could be vary by +/- 2%:

	Receivables impact £m
Home credit	5.5
IPF Digital	1.3
Group	6.8

Movements in probability of default parameters are not material to amounts receivable from customers.

This level of estimated impact is based on historic fluctuations in performance compared to the models and is subject to impairment overlay provisions.

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 in note 30 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.

Critical accounting judgements

Accounting judgements have been made over which tax risks require provisions and which require disclosure as a contingent liability, see above for further details.

NOTES TO THE FINANCIAL STATEMENTS

1. Segment analysis

Geographical segments

Group	Revenue		Impairment		Profit before taxation	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
European home credit	493.3	504.7	88.5	91.1	113.8	114.3
Mexico home credit	226.1	217.0	82.9	75.6	15.7	14.7
Digital	147.0	104.1	55.6	42.9	(5.6)	(11.7)
Slovakia and Lithuania	-	-	-	(8.5)	-	3.2
UK costs*	-	-	-	-	(14.6)	(14.9)
Total – continuing operations	866.4	825.8	227.0	201.1	109.3	105.6
Discontinued operations	-	3.7	-	2.6	-	(7.9)
Total	866.4	829.5	227.0	203.7	109.3	97.7

* 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	
	2018 £m	2017 £m	2018 £m	2017 £m
European home credit	699.8	822.3	327.7	332.0
Mexico home credit	241.7	220.3	144.8	145.2
Digital	310.2	231.9	224.7	157.0
Slovakia and Lithuania	0.3	0.9	5.3	7.7
UK	70.5	67.2	187.0	203.8
Total – continuing operations	1,322.5	1,342.6	889.5	845.7

Group	Capital expenditure		Depreciation	
	2018 £m	2017 £m	2018 £m	2017 £m
European home credit	4.1	6.7	5.0	5.1
Mexico home credit	1.7	2.7	2.2	2.4
Digital	0.9	0.6	0.6	0.4
UK	-	0.1	1.4	2.4
Total – continuing operations	6.7	10.1	9.2	10.3

Group	Expenditure on intangible assets		Amortisation	
	2018 £m	2017 £m	2018 £m	2017 £m
European home credit	-	-	-	-
Mexico home credit	-	-	-	-
Digital	10.5	5.9	4.6	2.9
UK	8.8	9.0	9.9	8.5
Total – continuing operations	19.3	14.9	14.5	11.4

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 £866.4 million (2017: £829.5 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 2017 in Slovakia / Lithuania is principally driven by the 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 £27.3 million (2017: £27.7 million), and the total of non-current assets located in other countries is £95.3 million (2017: £92.1 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	2018 £m	2017 £m
Interest payable on borrowings	58.5	55.2

3. Profit before taxation

Profit before taxation is stated after charging:

Group	2018 £m	2017 £m
Depreciation of property, plant and equipment (note 14)	9.2	10.3
Loss on disposal of property, plant and equipment	0.5	–
Impairment of intangible assets (note 12)	–	3.3
Amortisation of intangible assets (note 12)	14.5	11.4
Operating lease rentals:		
– property	12.1	12.9
– equipment	6.4	6.9
Employee costs (note 9)	192.9	193.0

4. Auditor's remuneration

During the year, the Group incurred the following costs in respect of services provided by the Group auditor:

Group	2018 £m	2017 £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	0.6	0.7
– 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 64.

5. Tax expense

Group	2018 £m	2017 £m
Current tax expense	44.3	47.0
Deferred tax (income)/expense (note 15)		
– current year	(12.0)	(18.9)
– prior year	1.6	2.5
	(10.4)	(16.4)
Pre-exceptional tax expense	33.9	30.6
Exceptional tax charge	–	30.0
Tax expense	33.9	60.6

The exceptional tax charge in 2017 of £30.0 million related to the write off of a deferred tax asset due to a change on Polish tax legislation effective from 1 January 2018.

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	2018 £m	2017 £m
<i>Tax credit/(charge) on other comprehensive income</i>		
Deferred tax credit on net fair value losses/gains – cash flow hedges	0.3	0.2
Deferred tax charge on actuarial gains on retirement benefit asset	(0.2)	(1.9)
	0.1	(1.7)

5. Tax expense continued

The rate of tax expense on the profit before taxation for the year ended 31 December 2018 is higher than (2017: higher than) the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%). The differences are explained as follows:

Group	2018 £m	2017 £m
Profit before taxation	109.3	105.6
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%)	20.8	20.3
Effects of:		
– adjustment in respect of prior years	1.6	2.5
– adjustment in respect of foreign tax rates	1.4	2.1
– expenses not deductible for tax purposes	10.3	5.6
– change in unrecognised deferred tax assets	(0.2)	0.1
Pre-exceptional tax expense	33.9	30.6
Exceptional tax charge	-	30.0
Total tax expense	33.9	60.6

The Group is currently subject to a tax audit with respect to Provident Polska for the years 2008-2012. Audits of 2010 to 2012 are ongoing, whilst for 2008 and 2009, decisions were received in January 2017 and have been appealed. Further details are set out in note 30.

The Group is also subject to audits in Mexico (regarding 2017) and Slovakia (regarding 2015). The Mexican audit is still at the information gathering stage, and the Slovak audit is nearing conclusion.

6. Earnings per share

Basic earnings per share ('EPS') from continuing operations is calculated by dividing the earnings attributable to shareholders of £75.4 million (2017: £45.0 million) by the weighted average number of shares in issue during the period of 223.0 million (2017: 222.4 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 £75.4 million (2017: £75.0 million) by the weighted average number of shares in issue during the period of 223.0 million (2017: 222.4 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 £75.4 million (2017: £36.6 million) by the weighted average number of shares in issue during the period of 223.0 million (2017: 222.4 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	2018 £M	2017 £M
Used in basic EPS calculation	223.0	222.4
Dilutive effect of awards	11.1	9.0
Used in diluted EPS calculation	234.1	231.4

Basic and diluted EPS are presented below:

Group	2018 pence	2017 pence
Basic EPS – continuing operations	33.8	20.2
Dilutive effect of awards	(1.6)	(0.7)
Diluted EPS – continuing operations	32.2	19.5
Group	2018 pence	2017 pence
Basic EPS – continuing operations adjusted for exceptional tax	33.8	33.7
Dilutive effect of awards	(1.6)	(1.3)
Diluted EPS – continuing operations adjusted for exceptional tax	32.2	32.4
Group	2018 pence	2017 pence
Basic EPS – including discontinued operations	33.8	16.5
Dilutive effect of awards	(1.6)	(0.7)
Diluted EPS – including discontinued operations	32.2	15.8

7. Dividends

Group and Company	2018 £m	2017 £m
Interim dividend of 4.6 pence per share (2017: interim dividend of 4.6 pence per share)	10.3	10.2
Final 2017 dividend of 7.8 pence per share (2017: final 2016 dividend of 7.8 pence per share)	17.4	17.4
	27.7	27.6

The directors are recommending a final dividend in respect of the financial year ended 31 December 2018 of 7.8 pence per share which will amount to a full year dividend payment of £27.7 million. If approved by the shareholders at the annual general meeting ('AGM'), this dividend will be paid on 10 May 2019 to shareholders who are on the register of members at 12 April 2019. This dividend is not reflected as a liability in the balance sheet as at 31 December 2018 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.

	2018 £m	2017 £m
Short-term employee benefits	4.4	4.4
Post-employment benefits	0.1	0.1
Share-based payments	0.1	0.4
Total	4.6	4.9

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 80.

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	2018 Number	2017 Number
Full-time*	7,127	7,225
Part-time**	1,894	2,266
	9,021	9,491

* Includes 716 agents in Hungary and Romania (2017: includes 718 agents in Hungary and Romania).

**Includes 1,595 agents in Hungary and Romania (2017: includes 1,954 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	2018 Number	2017 Number
Operations	5,365	5,680
Administration	831	887
Head office and security	2,825	2,924
	9,021	9,491

Group employment costs for all employees (including directors) were as follows:

Group	2018 £m	2017 £m
Gross wages and salaries	161.5	162.0
Social security costs	29.5	30.4
Pension charge – defined contribution schemes (note 25)	0.8	0.8
Share-based payment charge/(credit) (note 26)	1.1	(0.2)
Total	192.9	193.0

10. Discontinued operations

On 28 June 2017, we announced the 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	2018 £m	2017 £m
Revenue	-	3.7
Impairment	-	(2.6)
Revenue less impairment	-	1.1
Finance costs	-	(0.2)
Other operating costs	-	(0.7)
Administrative expenses	-	(2.9)
Trading losses	-	(2.7)
Write-off of assets	-	(5.2)
Loss before taxation	-	(7.9)
Taxation charge	-	(0.5)
Loss – discontinued operations	-	(8.4)

11. Goodwill

Group	2018 £m	2017 £m
<i>Net book value</i>		
At 1 January	24.4	23.3
Exchange adjustments	0.1	1.1
At 31 December	24.5	24.4

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% (2017: 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	2018 £m	2017 £m
<i>Net book value</i>		
At 1 January	33.1	32.6
Additions	19.3	14.9
Impairment	-	(3.3)
Amortisation	(14.5)	(11.4)
Exchange adjustments	0.1	0.5
Disposal of subsidiary	-	(0.2)
At 31 December	38.0	33.1
Analysed as:		
– cost	105.0	85.5
– amortisation	(67.0)	(52.4)
At 31 December	38.0	33.1

Intangible assets comprise computer software (2018: £38.0 million; 2017: £31.5 million) and customer relationships acquired on the acquisition of MCB Finance (2018: £nil; 2017: £1.6 million).

The Company has no intangible assets.

13. Investment in subsidiaries

Company	2018 £m	2017 £m
Investment in subsidiaries	686.8	686.8
Purchase of shares in subsidiary	25.5	25.5
Share-based payment adjustment	15.8	13.2
	728.1	725.5

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 £15.8 million (2017: £13.2 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') 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.

13. Investment in subsidiaries continued

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
Endepro, sro in liquidation	Slovakia	In liquidation
International Credit Insurance Limited	Guernsey	Provision of services
International Personal Finance Digital Spain S.A.U.	Spain	Digital credit
International Personal Finance Investments Limited	United Kingdom	Holding company
IPF Ceská 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 Group Limited	United Kingdom	Holding company
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 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 Nordic Limited	United Kingdom	Provision of services
IPF Polska sp. z o.o.	Poland	Digital credit
IPF Slovensko s.r.o.	Slovakia	In liquidation
PF (Netherlands) B.V.	Netherlands	Provision of services
Provident Agent De Asigrae srl	Romania	Dormant
Provident Financial Romania IFN S.A.	Romania	Home credit
Provident Financial s.r.o.	Czech Republic	Home credit
Provident Financial Zrt.	Hungary	Home credit
Provident Mexico S.A. de C.V.	Mexico	Home credit
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	In liquidation

All UK subsidiaries are registered at the same registered office as the Company, and this address is shown within Shareholder information on page 144.

14. Property, plant and equipment

Group	Computer equipment £m	Fixtures and fittings £m	Motor vehicles £m	Total £m
<i>Cost</i>				
At 1 January 2018	76.1	24.8	4.1	105.0
Exchange adjustments	-	0.2	(0.1)	0.1
Additions	4.9	1.8	-	6.7
Disposals	(2.9)	(1.0)	(0.7)	(4.6)
At 31 December 2018	78.1	25.8	3.3	107.2
<i>Depreciation</i>				
At 1 January 2018	(62.8)	(17.4)	(1.6)	(81.8)
Exchange adjustments	-	(0.1)	-	(0.1)
Charge to the income statement	(6.0)	(2.6)	(0.6)	(9.2)
Disposals	2.6	0.7	0.5	3.8
At 31 December 2018	(66.2)	(19.4)	(1.7)	(87.3)
Net book value at 31 December 2018	11.9	6.4	1.6	19.9
Net book value at 31 December 2017	13.3	7.4	2.5	23.2

The Company has property, plant and equipment with a cost of £1.0 million (2017: £1.0 million); depreciation of £1.0 million (2017: £1.0 million); and a net book value of £nil (2017: £nil). 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	
	2018 £m	2017 £m	2018 £m	2017 £m
At 1 January as originally presented	93.0	103.9	0.1	1.9
Change in accounting policy (see note 32)	23.1	-	-	-
Restated at 1 January	116.1	103.9	0.1	1.9
Exchange adjustments	1.5	5.0	-	-
Tax credit/(charge) to the income statement	10.4	(14.2)	0.1	(0.1)
Tax credit/(charge) on other comprehensive income	0.1	(1.7)	(0.3)	(1.7)
At 31 December	128.1	93.0	(0.1)	0.1

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 2018.

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	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred tax assets	138.5	103.1	-	0.1
Deferred tax liabilities	(10.4)	(10.1)	(0.1)	-
At 31 December	128.1	93.0	(0.1)	0.1

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 2017	7.6	85.6	10.7	103.9	1.7	0.2	1.9
Exchange adjustments	0.2	4.8	–	5.0	–	–	–
Tax credit/(charge) to the income statement	0.5	16.8	(0.9)	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	7.8	77.2	8.0	93.0	(0.4)	0.5	0.1
At 1 January 2018 as originally presented	7.8	77.2	8.0	93.0	(0.4)	0.5	0.1
Change in accounting policy (see note 32)	–	23.1	–	23.1	–	–	–
Restated 1 January 2018	7.8	100.3	8.0	116.1	(0.4)	0.5	0.1
Exchange adjustments	–	1.0	0.5	1.5	–	–	–
Tax credit/(charge) to the income statement	1.6	17.2	(8.4)	10.4	(0.3)	0.4	0.1
Tax credit/(charge) on items taken directly to equity	–	–	0.1	0.1	(0.1)	(0.2)	(0.3)
At 31 December 2018	9.4	118.5	0.2	128.1	(0.8)	0.7	(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 2018, the Group has unused tax losses of £52.7 million (2017: £47.6 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £35.0 million (2017: £28.9 million) of these losses. No deferred tax has been recognised in respect of the remaining £17.7 million (2017: £18.7 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 2018, there is £nil (2017: £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	2018 £m	2017 £m
Amounts receivable from customers comprise:		
– amounts due within one year	764.2	866.9
– amounts due in more than one year	228.6	190.0
	992.8	1,056.9

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	2018 £m	2017 £m
Polish zloty	353.0	393.3
Czech crown	66.0	83.3
Euro	179.1	148.4
Hungarian forint	128.3	162.7
Mexican peso	176.4	165.1
Romanian leu	74.4	93.4
Australian dollar	15.6	10.7
	992.8	1,056.9

The comparative numbers for 2017 are based on the old accounting standard for revenue and impairment (IAS39). 2017 amounts receivable from customers were £130.5 million lower under IFRS 9 (£926.4 million). This impact has been charged to equity on 1 January 2018 in accordance with the transitional rules included in IFRS 9. Further details on the impact of implementing IFRS 9 are included in the Financial review and in note 32.

16. Amounts receivable from customers continued

Amounts receivable from customers are stated at amortised cost and calculated in accordance with the Group's accounting policies. Depending on the risks associated with each loan, they are categorised into three stages where stage 3 is the highest risk. A description of the stages is included within the accounting policies on page 104. The table below shows the amount of the net receivables in each stage at 31 December 2018.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total Net Receivables £m
2018				
Home credit	460.6	90.0	192.2	742.8
IPF Digital	227.0	18.3	4.7	250.0
Group	687.6	108.3	196.9	992.8

Gross carrying amount and loss allowance

The amounts receivable from customers includes a provision for the loss allowance, which relates to the expected credit losses on each agreement. The gross carrying amount is the present value of the portfolio before the loss allowance provision is deducted. The gross carrying amount less the loss allowance is equal to the net receivables.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Group – 31 December 2018				
Gross carrying amount	821.0	191.8	487.6	1,500.4
Loss allowance	(133.4)	(83.5)	(290.7)	(507.6)
Net receivables	687.6	108.3	196.9	992.8

Gross carrying amount

The changes in gross carrying amount recognised for the period is impacted by a variety of factors:

- Credit issued in the period;
- Transfers between the three stages due to changes in the risk associated with each loan;
- Revenue recognised within the period; and
- Other changes to gross carrying amount including collections, write-offs and foreign exchange retranslations.

Loss allowance

The changes to the loss allowance recognised for the period is impacted by a variety of factors:

- Total impairment charge for the period, which comprises the following:
 - Loss allowance on credit issued;
 - Transfers between the three stages due to changes in the risk associated with each loan;
 - Changes in risk parameters (PDs, EADs, and LGDs) in the period arising from the regular refresh of the inputs into the expected loss model; and
 - Other impairment impact including the impact of movements in days past due within each stage, impairment impact of write-offs and post write-off field collections;
- Other changes to the loss allowance including collections, write-offs and foreign exchange retranslations.

The following tables explain the changes for home credit in the gross carrying amount, the loss allowance and net receivables between the beginning of the year and the end of the year:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount – home credit				
Opening gross carrying amount at 1 January 2018	575.1	157.7	434.4	1,167.2
Credit issued	1,048.8	-	-	1,048.8
Transfers between stages	(483.8)	71.5	412.3	-
Revenue	418.1	87.8	213.5	719.4
Other changes	(986.4)	(152.6)	(611.6)	(1,750.6)
Closing gross carrying amount at 31 December 2018	571.8	164.4	448.6	1,184.8

16. Amounts receivable from customers continued

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance – home credit				
Opening loss allowance at 1 January 2018	(108.8)	(70.3)	(242.1)	(421.2)
Loss allowance on credit issued	(243.2)	-	-	(243.2)
Transfers between stages	210.6	(17.6)	(193.0)	-
Change in risk parameters	0.7	(0.5)	(2.2)	(2.0)
Other impairment	(8.0)	(6.6)	88.4	73.8
Total impairment	(39.9)	(24.7)	(106.8)	(171.4)
Other changes	37.5	20.6	92.5	150.6
Closing loss allowance at 31 December 2018	(111.2)	(74.4)	(256.4)	(442.0)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Net receivables – home credit				
Opening net receivables at 1 January 2018	466.3	87.4	192.3	746.0
Credit issued	1,048.8	-	-	1,048.8
Transfers between stages	(483.8)	71.5	412.3	-
Revenue	418.1	87.8	213.5	719.4
Impairment	(39.9)	(24.7)	(106.8)	(171.4)
Other changes	(948.9)	(132.0)	(519.1)	(1,600.0)
Closing net receivables at 31 December 2018	460.6	90.0	192.2	742.8

The following tables explain the changes for IPF Digital in the gross carrying amount, the loss allowance and net receivables between the beginning of the year and the end of the year:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount – IPF Digital				
Opening gross carrying amount at 1 January 2018	178.2	20.9	36.9	236.0
Credit issued	311.8	-	-	311.8
Transfers between stages	(80.1)	3.9	76.2	-
Revenue	128.3	11.9	6.8	147.0
Other changes	(285.8)	(8.6)	(82.4)	(376.8)
Closing gross carrying amount at 31 December 2018	252.4	28.1	37.5	318.0

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance – IPF Digital				
Opening loss allowance at 1 January 2018	(17.0)	(6.9)	(31.7)	(55.6)
Loss allowance on credit issued	(37.0)	-	-	(37.0)
Transfers between stages	0.3	34.2	(34.5)	-
Change in risk parameters	2.5	0.4	1.6	4.5
Other impairment	25.9	(37.4)	(11.6)	(23.1)
Total impairment	(8.3)	(2.8)	(44.5)	(55.6)
Other changes	(0.1)	(0.1)	43.4	43.2
Closing loss allowance at 31 December 2018	(25.4)	(9.8)	(32.8)	(68.0)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Net receivables – IPF Digital				
Opening net receivables at 1 January 2018	161.2	14.0	5.2	180.4
Credit issued	311.8	-	-	311.8
Transfers between stages	(80.1)	3.9	76.2	-
Revenue	128.3	11.9	6.8	147.0
Impairment	(8.3)	(2.8)	(44.5)	(55.6)
Other changes	(285.9)	(8.7)	(39.0)	(333.6)
Closing net receivables at 31 December 2018	227.0	18.3	4.7	250.0

16. Amounts receivable from customers continued

Impairment as a percentage of revenue for each geographical segment is shown below:

Group	2018 %	2017 %
Europe	17.9	18.1
Mexico	36.7	34.8
Digital	37.8	41.2

The comparative numbers for 2017 are based on the old accounting standard (IAS 39). Further details of the impact of implementing IFRS 9 are included within the Financial review and in note 32.

The carrying value of amounts receivable from customers that would have been impaired had their terms not been renegotiated is £nil (2017: £nil).

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 109% (2017 IAS 39: 99%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 11.5 months (2017: 9.1 months).

No collateral is held in respect of any customer receivables.

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.

The Company has no amounts receivable from customers.

17. Cash and cash equivalents

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Cash at bank and in hand	46.6	27.4	0.1	–

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Polish zloty	23.6	9.9	–	–
Czech crown	3.4	3.3	–	–
Euro	7.2	6.1	0.1	–
Hungarian forint	2.0	2.3	–	–
Mexican peso	6.7	2.8	–	–
Romanian leu	3.1	2.5	–	–
Australian dollar	0.6	0.5	–	–
Total	46.6	27.4	0.1	–

18. Other receivables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Other receivables	9.8	10.3	0.1	0.5
Prepayments	9.1	9.0	0.7	1.5
Amounts due from Group undertakings	–	–	666.6	693.5
Total	18.9	19.3	667.4	695.5

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	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade payables	16.8	14.6	-	0.4
Other payables including taxation and social security	50.7	41.3	0.5	0.4
Accruals	80.2	89.8	23.5	24.7
Amounts due to Group undertakings	-	-	394.4	318.0
Total	147.7	145.7	418.4	343.5

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	
	2018 £m	2017 £m	2018 £m	2017 £m
<i>Borrowings</i>				
Bank borrowings	130.7	87.7	3.5	28.8
Bonds	567.6	590.0	525.7	547.2
Total	698.3	677.7	529.2	576.0

The Group's external bonds comprise the following:

Bond	Coupon %	Maturity date	2018 £m
€412 million EMTN	5.750	2021	370.9
£101.5 million retail bond	6.125	2020	101.5
Polish zloty 200.0 million PMTN	Six-month WIBOR plus 425 basis points	2020	42.0
Romanian lei 79.5 million EMTN	8.000	2019	15.4
Swedish krona 450.0 million EMTN	Three-month STIBOR plus 875 basis points	2022	40.0
			569.8
Less: unamortised arrangement fees			(2.2)
			567.6

The Polish zloty 200 million (£42.0 million) bonds are floating rate bonds, although derivative contracts have been used to fix borrowing costs up to June 2020. The Swedish Krona 450 million (£40.0 million) bond is a floating rate bond, although derivative contracts have been used to cap the borrowing costs up to September 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	
	2018 £m	2017 £m	2018 £m	2017 £m
<i>Borrowings</i>				
Repayable:				
- in less than one year	28.8	79.6	18.9	67.5
- between one and two years	172.1	15.2	101.2	15.2
- between two and five years	497.4	582.9	409.1	493.3
Total	698.3	677.7	529.2	576.0

The average period to maturity of the Group's external bonds and committed external borrowing facilities is 2.1 years (2017: 2.6 years).

20. Borrowing facilities and borrowings continued

The currency exposure on external borrowings is as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Sterling	104.7	119.1	104.7	129.8
Polish zloty	99.6	62.4	-	-
Czech crown	15.5	28.8	-	15.7
Euro	369.1	402.0	369.1	391.3
Hungarian forint	44.6	37.2	-	11.5
Mexican peso	4.3	0.2	-	-
Romanian leu	20.5	28.0	15.4	27.7
Swedish krona	40.0	-	40.0	-
Total	698.3	677.7	529.2	576.0

The maturity of the Group and Company's external bond and external bank facilities is as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
<i>Bond and bank facilities available</i>				
Repayable:				
- on demand	20.9	19.9	10.0	10.0
- in less than one year	65.7	113.5	15.4	65.1
- between one and two years	226.6	68.1	118.5	45.9
- between two and five years	572.8	665.5	452.2	511.6
Total	886.0	867.0	596.1	632.6

The undrawn external bank facilities at 31 December were as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Expiring within one year	57.8	53.7	6.5	7.0
Expiring between one and two years	54.1	52.9	17.0	30.7
Expiring in more than two years	73.6	79.5	41.3	15.9
Total	185.5	186.1	64.8	53.6

Undrawn external facilities above does not include unamortised arrangement fees.

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.

21. Risks arising from financial instruments continued

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 eleven 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; 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 2018, the Group's bonds and committed borrowing facilities had an average period to maturity of 2.1 years (2017: 2.6 years).

As shown in note 20, total undrawn facilities as at 31 December 2018 were £185.5 million (2017: £186.1 million).

As outlined in the Financial review on page 41, 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 to 2012 financial years are currently being audited by the tax authorities in Poland, and all subsequent years up to and including 2018 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 £36.1 million (comprising tax and associated interest) which was necessary in order to make the appeals. The 2008 and 2009 tax audit decisions are the subject of a process involving the UK and Polish tax authorities 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 whether future amounts will become due, and if so, the amount and timing of such cash outflows. However, in the event that audits are opened, and similar decisions are issued for each of these subsequent financial years, further amounts of up to c. £133 million may be required to be funded (including approximately £69 million for the 2010 to 2012 years in respect of which audits have commenced). See note 30 for further information.

As at 31 December 2018, in the IPF Digital business there are £81.2 million (2017: £46.4 million) of undrawn credit lines.

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	
	2018 £m	2017 £m	2018 £m	2017 £m
Not later than six months	20.5	65.4	15.8	52.7
Later than six months and not later than one year	49.5	71.6	34.9	47.0
Later than one year and not later than two years	205.6	49.3	128.3	44.6
Later than two years and not later than five years	515.0	618.8	421.5	525.4
	790.6	805.1	600.5	669.7

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	2018		2017	
	Outflow £m	Inflow £m	Outflow £m	Inflow £m
Not later than one month	156.1	155.5	189.3	189.7
Later than one month and not later than six months	76.3	73.5	188.4	189.0
Later than six months and not later than one year	106.8	104.9	52.9	53.8
Later than one year and not later than two years	48.4	44.1	24.9	24.3
Later than two years and not later than five years	-	-	12.0	11.4
	387.6	378.0	467.5	468.2

21. Risks arising from financial instruments continued

Company	2018		2017	
	Outflow £m	Inflow £m	Outflow £m	Inflow £m
Not later than one month	13.7	14.0	45.0	45.5
Later than one month and not later than six months	1.0	1.0	1.6	1.4
Later than six months and not later than one year	0.7	0.6	12.7	15.1
	15.4	15.6	59.3	62.0

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 %
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
2018				
Less than one year	764.2	77.0	86.6	9.8
Later than one year	228.6	23.0	799.4	90.2
	992.8	100.0	886.0	100.0

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.

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, and in note 16.

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 (6.8% in 2018; 6.7% in 2017) 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	2018 £m	2017 £m
Increase in fair value of derivatives taken to equity	0.8	0.3
Reduction in profit before taxation	1.9	1.7

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 2018 is a reduction in net assets of £8.7 million (2017: increase of £51.3 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.

21. Risks arising from financial instruments continued

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	2018 £m	2017 £m
Change in reserves	5.7	6.8
Change in profit before taxation	8.3	8.6

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).

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	2018 £m	2017 £m
Cash and cash equivalents	46.6	27.4
Derivative financial assets	1.6	10.4
Total	48.2	37.8

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	2018 £m	2017 £m
Amounts receivable from customers	992.8	1,056.9

The table above represents the maximum exposure to credit risk of the Group at the year end. Further analysis of the amounts receivable from customers is presented in note 16. The comparative numbers for 2017 are based on the old accounting standard (IAS 39). Further details of the impact of implementing IFRS 9 are included within the Financial review and in note 32.

21. Risks arising from financial instruments continued

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	2018 £m	2017 £m
Receivables	992.8	1,056.9
Borrowings	(698.3)	(677.7)
Other net assets	138.5	117.7
Equity	433.0	496.9
Equity as % of receivables	43.6%	47.0%
Gearing	1.6	1.4

The comparative numbers for 2017 are based on the old accounting standard (IAS 39). Further details of the impact of implementing IFRS 9 are included within the Financial review and in note 32.

Equity as a percentage of receivables was above the Group's internally-set target.

We operate with significant headroom on the key financial covenants (which are prepared on an IAS 39 basis), for further details are included within the Financial review on page 41.

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	2018 £m	2017 £m
<i>Assets</i>		
Foreign currency contracts	1.6	10.4
Total	1.6	10.4
<i>Liabilities</i>		
Interest rate swaps	0.6	0.6
Foreign currency contracts	6.7	4.2
Total	7.3	4.8

22. Derivative financial instruments continued

Company	2018 £m	2017 £m
<i>Assets</i>		
Foreign currency contracts	-	3.5
Total	-	3.5

Company	2018 £m	2017 £m
<i>Liabilities</i>		
Foreign currency contracts	0.1	0.1
Total	0.1	0.1

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 £0.3 million has been credited to equity for the Group in the period in respect of cash flow hedges (2017: £2.5 million charged to equity), Company: £1.0 million credit (2017: £1.5 million charge).

Foreign currency contracts

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2018 is £474.0 million (2017: £462.5 million). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £240.6 million (2017: £173.0 million). These contracts have various maturity dates up to October 2020 (2017: 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 £233.4 million (2017: £289.5 million). These contracts have various maturity dates up to February 2020 (2017: 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.

£nil (2017: £0.3 million credit) 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 2018 is £15.4 million (2017: £57.1 million). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £2.1 million (2017: £2.3 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 £13.3 million (2017: £54.8 million). These contracts have various maturity dates up to January 2019 (2017: 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 £42.0 million (2017: £43.0 million). In 2018, these interest rate swaps cover the current borrowings relating to the floating rate Polish bond.

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 (2017: £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.

22. Derivative financial instruments continued

The weighted average interest rate and period to maturity of the Group interest rate swaps were as follows:

	2018			2017		
	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	1.4	2.7	2.7-2.8	2.4

The Company did not hold any interest rate swaps at 31 December 2018 (31 December 2017: £nil).

23. Analysis of financial assets and financial liabilities

Financial assets

An analysis of Group financial assets is presented below:

	2018			2017		
	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	992.8	-	992.8	1,056.9	-	1,056.9
Derivative financial instruments	-	1.6	1.6	-	10.4	10.4
Cash and cash equivalents	46.6	-	46.6	27.4	-	27.4
Other receivables	18.9	-	18.9	19.3	-	19.3
Current tax assets	1.5	-	1.5	5.7	-	5.7
	1,059.8	1.6	1,061.4	1,109.3	10.4	1,119.7

Financial liabilities

An analysis of Group financial liabilities is presented below:

	2018			2017		
	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	567.6	-	567.6	590.0	-	590.0
Bank borrowings	130.7	-	130.7	87.7	-	87.7
Derivative financial instruments	-	7.3	7.3	-	4.8	4.8
Trade and other payables	147.7	-	147.7	145.7	-	145.7
Current tax liabilities	25.8	-	25.8	7.4	-	7.4
	871.8	7.3	879.1	830.8	4.8	835.6

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	2018		2017	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
<i>Financial assets</i>				
Amounts receivable from customers	1,371.9	992.8	1,433.0	1,056.9
Derivative financial instruments	1.6	1.6	10.4	10.4
Cash and cash equivalents	46.6	46.6	27.4	27.4
Other receivables	18.9	18.9	19.3	19.3
Current tax assets	1.5	1.5	5.7	5.7
	1,440.5	1,061.4	1,495.8	1,119.7
<i>Financial liabilities</i>				
Bonds	529.6	567.6	567.8	590.0
Bank borrowings	130.7	130.7	87.7	87.7
Derivative financial instruments	7.3	7.3	4.8	4.8
Trade and other payables	147.7	147.7	145.7	145.7
Current tax liabilities	25.8	25.8	7.4	7.4
	841.1	879.1	813.4	835.6

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% (2017: 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 2018. The major assumptions used by the actuary were:

Group and Company	2018 %	2017 %
Price inflation ('CPI')	2.1	2.1
Rate of increase to pensions in payment	3.0	2.9
Discount rate	3.0	2.6

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.

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 asset would reduce by approximately £1.3 million.

25. Retirement benefit asset/obligation continued

If the discount rate was 25 basis points higher/(lower), the defined benefit asset would increase by £2.0 million/(decrease by £2.2 million).

If the price inflation rate was 25 basis points higher/(lower), the defined benefit asset would decrease by £1.2 million/(increase by £1.1 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit asset, 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	2018 £m	2017 £m
Equities	10.8	11.7
Debt instruments	17.5	18.7
Diversified growth funds	11.2	11.7
Other	1.9	0.1
Total fair value of scheme assets	41.4	42.2
Present value of funded defined benefit obligations	(37.3)	(40.1)
Net asset recognised in the balance sheet	4.1	2.1

The amounts recognised in the income statement are as follows:

Group and Company	2018 £m	2017 £m
Interest cost	1.0	1.3
Past service cost	0.1	–
Expected return on scheme assets	(1.1)	(1.1)
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	2018 £m	2017 £m
Fair value of scheme assets at 1 January	42.2	40.2
Expected return on scheme assets	1.1	1.1
Actuarial (loss)/gain on scheme assets	(2.2)	3.9
Contributions by the Group	0.9	1.1
Net benefits paid out	(0.6)	(4.1)
Fair value of scheme assets at 31 December	41.4	42.2

The Group expects to make a contribution of £0.9 million (2018: £0.9 million) to the deferred benefit pension scheme in the year ending 31 December 2019. 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.

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

Group and Company	2018 £m	2017 £m
Defined benefit obligation at 1 January	(40.1)	(49.3)
Interest cost	(1.0)	(1.3)
Actuarial gain on scheme liabilities	3.3	6.4
Past service cost	(0.1)	–
Net benefits paid out	0.6	4.1
Defined benefit obligation at 31 December	(37.3)	(40.1)

The weighted average duration of the defined benefit asset is 22.4 years (2017: 23.6 years).

25. Retirement benefit asset/obligation continued

The actual return on scheme assets compared to the expected return is as follows:

Group and Company	2018 £m	2017 £m
Expected return on scheme assets	1.1	1.1
Actuarial (loss)/gain on scheme assets	(2.2)	3.9
Actual (loss)/return on scheme assets	(1.1)	5.0

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	2018 £m	2017 £m
Actuarial (loss)/gain on scheme assets	(2.2)	3.9
Actuarial gain on scheme liabilities	3.3	6.4
Total gain recognised in the SOCl in the year	1.1	10.3
Cumulative amount of losses recognised in the SOCl	(14.1)	(15.2)

The history of experience adjustments are as follows:

Group and Company	2018	2017	2016*	2015*	2014*
Experience (losses)/gains on scheme assets:					
• amount (£m)	(2.2)	3.9	3.4	(0.9)	2.2
• percentage of scheme assets (%)	(5.3)	9.2	8.5	(2.5)	6.0
Experience gains on scheme liabilities:					
• amount (£m)	-	2.9	-	-	1.2
• percentage of scheme liabilities (%)	-	7.1	-	-	3.1

* As required under IAS 19.

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 2018 (2017: £0.8 million). £nil contributions were payable to the scheme at the year-end (2017: £nil).

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, or the HYS Plan in 2018.

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. From the 2018 scheme onwards, the Deferred Share Plan does not have 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.

26. Share-based payments continued

The total income statement charge in respect of these share-based payments is £1.1 million (2017: credit of £0.2 million).

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	Performance Share Plans	Discretionary Award Plan
Grant date	2018	2018	2018
Share price at award date	2.40	2.48	1.93
Base price for TSR	n/a	3.00	n/a
Exercise price	1.92	Nil	n/a
Vesting period (years)	3 and 5	3	3
Expected volatility	49.6%–55.2%	51.9%–57.4%	n/a
Award life (years)	Up to 5	3	n/a
Expected life (years)	Up to 5	3	n/a
Risk-free rate	1.28%	1.52%	n/a
Expected dividends expressed as a dividend yield	5.16%	5.04%	n/a
Deferred portion	n/a	50.0%	n/a
TSR threshold	n/a	30.0%	n/a
TSR maximum target	n/a	60.0%	n/a
EPS threshold	n/a	86.6p	n/a
EPS maximum target	n/a	101p	n/a
Net revenue threshold	n/a	6.0%	n/a
Net revenue maximum target	n/a	8.1%	n/a
Fair value per award (£)	0.92–0.97	1.36–2.11	n/a

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 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	–
Outstanding at 1 January 2018	537,248	1.74	300,860	3.14	1,820,921	–	6,633,574	–	90,280	–	320,000	–
Granted	103,836	1.92	–	–	806,714	–	3,243,898	–	–	–	412,704	–
Expired/lapsed	(60,787)	2.24	(64,768)	3.70	(112,175)	–	(1,522,638)	–	(84,744)	–	–	–
Exercised	(2,921)	1.54	–	–	(360,873)	–	(177,362)	–	–	–	(120,000)	–
Outstanding at 31 December 2018	577,376	1.72	236,092	2.99	2,154,587	–	8,177,472	–	5,536	–	612,704	–

Share awards outstanding at 31 December 2018 had exercise prices of £1.54 - £6.36 (2017: £1.54 - £6.36) and a weighted average remaining contractual life of 8.4 years (2017: 7.8 years).

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 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	-
Outstanding at 1 January 2018	245,845	1.83	158,792	3.13	800,494	-	2,583,915	-
Granted	48,716	1.92	-	-	312,041	-	1,316,576	-
Transferred	149,646	1.52	-	-	-	-	-	-
Expired/lapsed	(45,937)	2.20	(32,803)	3.51	(90,024)	-	(686,122)	-
Exercised	(2,272)	1.54	-	-	(213,278)	-	(56,115)	-
Outstanding at 31 December 2018	395,998	1.68	125,989	2.68	809,233	-	3,158,254	-

The Company does not have any awards under the HYS Plan or Discretionary Award Plan.

Share awards outstanding at 31 December 2018 had exercise prices of £1.54 - £6.36 (2017: £1.54 - £6.36) and a weighted average remaining contractual life of 8.4 years (2017: 8.0 years).

27. Share capital

Company	2018 £m	2017 £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 2018 was 10,991,381 (2017: 11,645,420).

28. Reconciliation of profit/(loss) after taxation to cash generated from continuing operating activities

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Profit/(loss) after taxation from continuing operations	75.4	45.0	(32.3)	(21.5)
Adjusted for:				
• tax charge	33.9	60.6	1.5	1.4
• finance costs	58.5	55.2	56.8	47.5
• finance income	-	-	(37.8)	(39.0)
• share-based payment charge/(credit) (note 26)	1.1	(0.2)	0.3	0.3
• depreciation of property, plant and equipment (note 14)	9.2	10.3	-	0.1
• loss on disposal of property, plant and equipment (note 14)	0.5	-	-	-
• amortisation of intangible assets (note 12)	14.5	11.4	-	-
• impairment of intangible assets (note 12)	-	3.3	-	-
Changes in operating assets and liabilities:				
• amounts receivable from customers	(65.9)	(65.9)	-	-
• other receivables	-	2.0	29.0	(67.7)
• trade and other payables	3.7	20.2	76.6	90.9
• retirement benefit obligation	(0.9)	(0.9)	(0.9)	(0.9)
• derivative financial instruments	11.6	2.6	4.5	(1.9)
Cash generated from continuing operating activities	141.6	143.6	97.7	9.2

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	2018 £m	2017 £m
In less than one year	13.5	14.7
In more than one year but not later than five years	15.2	18.3
In more than five years	0.3	-
	29.0	33.0

Other commitments are as follows:

Group	2018 £m	2017 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	4.9	8.4

The Company has no commitments as at 31 December 2018 (2017: £nil).

30. Contingent liabilities

Polish tax audit

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) in January in relation to both the 2008 and 2009 financial years. Provident Polska appealed these decisions to the District Administrative Court, but had to pay the amounts assessed totalling approximately £36.1 million (comprising tax and associated interest) in order to make the appeals. As noted on page 41, the 2008 and 2009 tax audit decisions are the subject of a process involving the UK and Polish tax authorities 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 to 2012 financial years are currently being audited by the tax authorities in Poland. In the event that the Polish tax authorities were to issue decisions, and those decisions were to follow the same reasoning as for 2008 and 2009, around a further £69 million would become payable. In addition, all subsequent years remain open to future audit, meaning that there are further significant uncertainties in relation to whether future amounts will become due, and if so, the amount and timing of such 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. The total potential liability for all open years 2008-2018, if all years were assessed on the same basis as 2008 and 2009, would amount to around £169 million, including the £36.1 million that was paid in January 2017. Further information is set out in note 21.

State aid investigation

In late 2017 the European Commission opened a state aid investigation into the Group Financing Exemption contained in the UK controlled foreign company rules, which were 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 tax benefit obtained by the Group in all years since 2013 is estimated at up to £13.5 million. We do not believe that any provision is required in respect of this item and we are monitoring developments.

The Company has a contingent liability for guarantees given in respect of the borrowings of certain other Group companies to a maximum of £264.2 million (2017: £243.3 million). At 31 December 2018, the fixed and floating rate borrowings under these facilities amounted to £151.8 million (2017: £99.9 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 2018 was £nil (2017: £nil).

At 31 December 2018, in the IPF Digital business there are £81.2 million (2017: £46.4 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	2018			2017		
	Recharge of costs £m	Interest charge £m	Outstanding balance £m	Recharge of costs £m	Interest charge £m	Outstanding balance £m
Europe	0.1	-	(0.6)	0.1	-	0.3
Mexico	-	10.5	0.6	-	10.3	0.4
Other UK companies	2.6	7.2	98.4	3.9	14.8	118.4
	2.7	17.7	98.4	4.0	25.1	119.1

The Group's only related party transactions are remuneration of key management personnel as disclosed in note 8.

32. Changes in Accounting Policies – IFRS 9 ‘Financial Instruments’

This note explains the impact of the adoption of IFRS 9 Financial Instruments on the Group’s Financial Statements.

IFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. The adjustments are explained in more detail below.

	Audited 1 January 2018 £m	IFRS 9 impact 1 January 2018 £m	Restated 1 January 2018 £m
Assets			
<i>Non-current assets</i>			
Goodwill	24.4	-	24.4
Intangible assets	33.1	-	33.1
Property, plant and equipment	23.2	-	23.2
Deferred tax assets	103.1	23.1	126.2
Non-current tax assets	37.0	-	37.0
Retirement benefit asset	2.1	-	2.1
	222.9	23.1	246.0
<i>Current assets</i>			
Amounts receivable from customers:			
• due within one year	866.9	(107.0)	759.9
• due in more than one year	190.0	(23.5)	166.5
	1,056.9	(130.5)	926.4
Derivative financial instruments	10.4	-	10.4
Cash and cash equivalents	27.4	-	27.4
Other receivables	19.3	-	19.3
Current tax assets	5.7	-	5.7
	1,119.7	(130.5)	989.2
Total assets	1,342.6	(107.4)	1,235.2
Liabilities			
<i>Current liabilities</i>			
Borrowings	(79.6)	-	(79.6)
Derivative financial instruments	(4.8)	-	(4.8)
Trade and other payables	(145.7)	-	(145.7)
Current tax liabilities	(7.4)	-	(7.4)
	(237.5)	-	(237.5)
<i>Non-current liabilities</i>			
Deferred tax liabilities	(10.1)	-	(10.1)
Borrowings	(598.1)	-	(598.1)
	(608.2)	-	(608.2)
Total liabilities	(845.7)	-	(845.7)
Net assets	496.9	(107.4)	389.5
Equity attributable to owners of the Company			
Called-up share capital	23.4	-	23.4
Other reserve	(22.5)	-	(22.5)
Foreign exchange reserve	60.0	-	60.0
Hedging reserve	(1.2)	-	(1.2)
Own shares	(47.6)	-	(47.6)
Capital redemption reserve	2.3	-	2.3
Retained earnings	482.5	(107.4)	375.1
Total equity	496.9	(107.4)	389.5

32. Changes in Accounting Policies – IFRS 9 ‘Financial Instruments’ continued

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out within this note. In accordance with the transitional provisions of IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group’s retained earnings as at 1 January 2018 is as follows:

	1 January 2018 £m
Closing retained earnings 31 December 2017 – IAS 39	482.5
Increase in impairment provisions for amounts receivable from customers	(130.5)
Increase in deferred tax asset relating to impairment provisions	23.1
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	(107.4)
Opening retained earnings 1 January 2018 – IFRS 9	375.1

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			
IFRS 9 2017 comparative	IAS 39 comparative	n/a	The performance reporting in this Annual Report compares the 2018 performance against the 2017 numbers adjusted for IFRS 9 because the Board believes that this provides the most relevant comparison of performance trends. A full reconciliation of the 2017 profit and loss account between the reported numbers and the IFRS 9 numbers included within these APMs.
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.

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.

Reconciliation of 2017 reported numbers under IAS 39 restated under IFRS 9

The performance reporting in this report compares the 2018 actual performance against the 2017 numbers adjusted for IFRS 9 because the Board believes that this provides the most relevant comparison of performance trends. A full reconciliation of the 2017 profit and loss account between the reported numbers and the IFRS 9 numbers is set out below.

Group	2017 IAS 39 £m	IFRS 9 Impact £m	2017 IFRS 9 £m	Home credit	2017 IAS 39 £m	IFRS 9 Impact £m	2017 IFRS 9 £m
Average net receivables	993.1	(116.0)	877.1	Average net receivables	833.9	(105.3)	728.6
Revenue	825.8	16.8	842.6	Revenue	721.7	16.8	738.5
Impairment	(201.1)	(25.2)	(226.3)	Impairment	(166.7)	(20.6)	(187.3)
Net revenue	624.7	(8.4)	616.3	Net revenue	555.0	(3.8)	551.2
Finance costs	(55.2)	–	(55.2)	Finance costs	(46.8)	–	(46.8)
Agents' commission	(85.9)	–	(85.9)	Agents' commission	(85.5)	–	(85.5)
Other costs	(378.0)	–	(378.0)	Other costs	(293.7)	–	(293.7)
Profit before taxation	105.6	(8.4)	97.2	Profit before taxation	129.0	(3.8)	125.2

Reconciliation of 2017 reported numbers under IAS 39 restated under IFRS 9 continued

	2017 IAS 39 £m	IFRS 9 Impact £m	2017 IFRS 9 £m
European home credit			
Average net receivables	661.7	(83.7)	578.0
Revenue	504.7	15.2	519.9
Impairment	(91.1)	(17.2)	(108.3)
Net revenue	413.6	(2.0)	411.6
Finance costs	(36.6)	–	(36.6)
Agents' commission	(56.6)	–	(56.6)
Other costs	(206.1)	–	(206.1)
Profit before taxation	114.3	(2.0)	112.3
Mexico home credit			
Average net receivables	172.2	(21.6)	150.6
Revenue	217.0	1.6	218.6
Impairment	(75.6)	(3.4)	(79.0)
Net revenue	141.4	(1.8)	139.6
Finance costs	(10.2)	–	(10.2)
Agents' commission	(28.9)	–	(28.9)
Other costs	(87.6)	–	(87.6)
Profit before taxation	14.7	(1.8)	12.9
Digital			
Average net receivables	159.2	(10.7)	148.5
Revenue	104.1	–	104.1
Impairment	(42.9)	(4.6)	(47.5)
Net revenue	61.2	(4.6)	56.6
Finance costs	(8.4)	–	(8.4)
Other costs	(64.5)	–	(64.5)
Profit before taxation	(11.7)	(4.6)	(16.3)
Digital Established markets			
Average net receivables	109.5	(3.8)	105.7
Revenue	63.4	–	63.4
Impairment	(13.2)	0.1	(13.1)
Net revenue	50.2	0.1	50.3
Finance costs	(5.8)	–	(5.8)
Other costs	(25.9)	–	(25.9)
Profit before taxation	18.5	0.1	18.6
Digital New markets			
Average net receivables	49.7	(6.9)	42.8
Revenue	40.7	–	40.7
Impairment	(29.7)	(4.7)	(34.4)
Net revenue	11.0	(4.7)	6.3
Finance costs	(2.6)	–	(2.6)
Other costs	(28.9)	–	(28.9)
Profit before taxation	(20.5)	(4.7)	(25.2)

Constant exchange rate reconciliations

The year-on-year change in IFRS 9 profit and loss accounts is calculated by retranslating the 2017 IFRS 9 profit and loss account at the average actual exchange rates used in the current year.

2017

£m	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Customers (000)	1,092	917	292	-	-	2,301
Credit issued	757.8	291.0	311.8	-	-	1,360.6
Average net receivables	558.9	154.9	209.6	-	-	923.4
Revenue	493.3	226.1	147.0	-	-	866.4
Impairment	(88.5)	(82.9)	(55.6)	-	-	(227.0)
Net revenue	404.8	143.2	91.4	-	-	639.4
Finance costs	(35.3)	(11.3)	(11.9)	-	-	(58.5)
Agents' commission	(53.7)	(28.8)	-	-	-	(82.5)
Other costs	(202.0)	(87.4)	(85.1)	-	(14.6)	(389.1)
Profit/(loss) before tax	113.8	15.7	(5.6)	-	(14.6)	109.3

2017 performance, restated for IFRS 9, at 2017 average foreign exchange rates

£m	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Customers (000)	1,236	828	226	-	-	2,290
Credit issued	797.0	273.7	230.8	-	-	1,301.5
Average net receivables	578.0	150.6	148.5	-	-	877.1
Revenue	519.9	218.6	104.1	-	-	842.6
Impairment	(108.3)	(79.0)	(47.5)	8.5	-	(226.3)
Net revenue	411.6	139.6	56.6	8.5	-	616.3
Finance costs	(36.6)	(10.2)	(8.4)	-	-	(55.2)
Agents' commission	(56.6)	(28.9)	-	(0.4)	-	(85.9)
Other costs	(206.1)	(87.6)	(64.5)	(4.9)	(14.9)	(378.0)
Profit/(loss) before tax	112.3	12.9	(16.3)	3.2	(14.9)	97.2

Foreign exchange movements

£m	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Credit issued	1.9	(14.6)	0.7	-	-	(12.0)
Average net receivables	2.4	(7.8)	0.5	-	-	(4.9)
Revenue	1.0	(11.7)	0.2	-	-	(10.5)
Impairment	(0.1)	4.0	(0.1)	0.3	-	4.1
Net revenue	0.9	(7.7)	0.1	0.3	-	(6.4)
Finance costs	(0.1)	0.6	(0.1)	-	-	0.4
Agents' commission	(0.2)	1.6	-	-	-	1.4
Other costs	(1.3)	4.3	0.3	(0.1)	-	3.2
Profit/(loss) before tax	(0.7)	(1.2)	0.3	0.2	-	(1.4)

2017 performance, restated for IFRS 9, at 2018 average exchange rates

£m	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Credit issued	798.9	259.1	231.5	-	-	1,289.5
Average net receivables	580.4	142.8	149.0	-	-	872.2
Revenue	520.9	206.9	104.3	-	-	832.1
Impairment	(108.4)	(75.0)	(47.6)	8.8	-	(222.2)
Net revenue	412.5	131.9	56.7	8.8	-	609.9
Finance costs	(36.7)	(9.6)	(8.5)	-	-	(54.8)
Agents' commission	(56.8)	(27.3)	-	(0.4)	-	(84.5)
Other costs	(207.4)	(83.3)	(64.2)	(5.0)	(14.9)	(374.8)

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Year-on-year movement at constant exchange rates

	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Credit issued	(5.1%)	12.3%	34.7%	–	–	5.5%
Average net receivables	(3.7%)	8.5%	40.7%	–	–	5.9%
Revenue	(5.3%)	9.3%	40.9%	–	–	4.1%
Impairment	18.4%	(10.5%)	(16.8%)	(100.0%)	–	(2.2%)
Net revenue	(1.9%)	8.6%	61.2%	(100.0%)	–	4.8%
Finance costs	3.8%	(17.7%)	(40.0%)	–	–	(6.8%)
Agents' commission	5.5%	(5.5%)	–	100.0%	–	2.4%
Other costs	2.6%	(4.9%)	(32.6%)	100.0%	2.0%	(3.8%)

Return on assets (ROA)

ROA is calculated as profit before interest after tax divided by average receivables

2018	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Profit before tax (£m)	113.8	15.7	(5.6)	–	(14.6)	109.3
Interest (£m)	35.3	11.3	11.9	–	–	58.5
Profit before interest and tax (£m)	149.1	27.0	6.3	–	(14.6)	167.8
Taxation (£m)	(46.2)	(8.4)	(2.0)	–	4.5	(52.1)
Profit before interest after tax (£m)	102.9	18.6	4.3	–	(10.1)	115.7
Average receivables (£m)	558.9	154.9	209.6	–	–	923.4
Return on assets (ROA)	18.4%	12.0%	2.1%	–	–	12.5%

2017 IFRS 9	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Profit before tax (£m)	112.3	12.9	(16.3)	3.2	(14.9)	97.2
Interest (£m)	36.6	10.2	8.4	–	–	55.2
Profit before interest and tax (£m)	148.9	23.1	(7.9)	3.2	(14.9)	152.4
Taxation ¹ (£m)	(43.2)	(6.7)	2.3	(0.9)	4.3	(44.2)
Profit before interest after tax (£m)	105.7	16.4	(5.6)	2.3	(10.6)	108.2
Average receivables (£m)	578.0	150.6	148.5	–	–	877.1
Return on assets (ROA)	18.3%	10.9%	(3.8%)	–	–	12.3%

1. Adjusted for exceptional tax charge

2017 IAS 39	European home credit	Mexico home credit	IPF Digital	Lithuania and Slovakia	Central costs	Group
Profit before tax (£m)	114.3	14.7	(11.7)	3.2	(14.9)	105.6
Interest (£m)	36.6	10.2	8.4	–	–	55.2
Profit before interest and tax (£m)	150.9	24.9	(3.3)	3.2	(14.9)	160.8
Taxation ¹ (£m)	(43.7)	(7.2)	1.0	(0.9)	4.3	(46.5)
Profit before interest after tax (£m)	107.2	17.7	(2.3)	2.3	(10.6)	114.3
Average receivables (£m)	661.7	172.2	159.2	–	–	993.1
Return on assets (ROA)	16.2%	10.3%	(1.5%)	–	–	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)

	2018 IFRS 9 £m	2017 IFRS 9 £m	2016 IFRS 9 £m	2017 IAS 39 £m	2016 IAS 39 £m
Equity (net assets)	433.0	389.5	336.7	496.9	429.5
Average equity	411.3	363.1		463.2	
Profit after pre-exceptional tax	75.4	69.0		75.0	
Return on equity	18.3%	19.0%		16.2%	

Earnings before interest, tax, depreciation and amortisation (EBITDA)

	2018 IFRS 9 £m	2017 IFRS 9 £m	2017 IAS 39 £m
Profit before tax from continuing operations	109.3	97.2	105.6
Add back:			
Interest	58.5	55.2	55.2
Depreciation	9.2	10.3	10.3
Amortisation	14.5	11.4	11.4
EBITDA	191.5	174.1	182.5

IAS39 Gearing

IAS39 Net worth £m	2018 IFRS 9	2018 conversion	2018 IAS 39
Receivables	992.8	142.6	1,135.4
Deferred tax	128.1	(25.3)	102.8
Borrowings	(698.3)		(698.3)
Other net assets	10.4		10.4
Net assets	433.0	117.3	550.3

£m	2018 IAS 39
Net assets	550.3
Pension asset	(4.1)
Derivative asset / liability	5.7
Net worth	551.9
Net worth	551.9
Borrowings	(698.3)
Gearing	1.3

IAS39 Interest cover

IAS39 Interest cover £m	2018 IFRS 9	2018 conversion	2018 IAS 39
Profit before tax	109.3	11.7	121.0
Amortisation of intangible assets			14.5
Interest			58.5
Profit before tax, amortisation and interest			194.0

£m	2018 IAS 39
Profit before tax, amortisation and interest	194.0
Interest	58.5
	3.3

SHAREHOLDER INFORMATION

Financial calendar for 2019

27 February	Announcement of 2018 full-year results
11 April	Ex-dividend date for final dividend
12 April	Record date for final dividend
18 April	DRIP cut-off date
2 May	AGM
10 May	Payment of 2018 final dividend
31 July	Announcement of 2019 half-year results
5 September	Ex-dividend date for interim dividend
6 September	Record date for interim dividend
13 September	DRIP cut-off date
4 October	Payment of 2019 interim dividend

Dividend history

Year	Payment date	Final dividend (p)	Payment date	Interim dividend (p)
2018	11 May 2018	7.80	5 October 2018	4.60

Details of previous dividend payments can be found on our website at www.ipfin.co.uk.

Dividends

Dividends can be paid directly into a shareholder's bank or building society account. This ensures secure delivery and means that cleared funds are received on the payment date. For shareholders that are resident outside the UK, dividend payments are made by Link's International Payment Service and are paid in local currency.

The Company offers a dividend reinvestment plan (DRIP). A DRIP is a convenient and easy way to build a shareholding by using cash dividends to buy additional shares rather than receiving a cheque or having your bank account credited with cash. To receive more information, change your preferred dividend payment method, or if you would like to participate in the DRIP, please contact the Company's registrar, Link Asset Services.

Registrar

Queries relating to your shareholdings including transfers, dividend payments/reinvestments, lost share certificates, duplicate accounts and amending personal details should be addressed to the Company's registrar:

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). If you are calling from outside the UK please call +44 (0)371 644 0300 (calls outside the UK 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:

shareholderenquiries@linkgroup.co.uk

Website:

www.linkassetservices.com

Go paperless

Shareholders can register for electronic communications by visiting the website at www.myipfshares.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 and it would be uneconomical to sell the shares, you may wish to donate your shares to ShareGift (registered charity no. 1052686), which is an independent charity.

ShareGift can amalgamate small shareholdings in order to sell the shares and pass the proceeds on to other charities. More information is available at www.sharegift.org or telephone 020 7930 3737.

Company registered office

International Personal Finance plc
Number Three, Leeds City Office Park
Meadow Lane, Leeds
West Yorkshire LS11 5BD

Telephone:

+44 (0)113 285 6700

Company number: 6018973

Registered in England and Wales

Website:

www.ipfin.co.uk