International
Personal
Finance

Straightforward consumer finance

Annual Report and
Financial Statements
2016

Providing credit responsibly to our customers

Read more on P.6

Market review Q&A

Read more on P.8

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We are a leading provider of
Home credit and digital loans
We are evolving to meet the changing needs of 2.6 million customers across 12 international markets.

Our home credit and digital business models drive our strategy and work together to drive returns for shareholders, while delivering value for our customers, people and the communities in which we operate.

We are operating in a dynamic environment and have evolved our strategy to maximise the opportunity in an increasingly digital world.

View our report online: **www.ipfin.co.uk**

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Cautionary statement

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

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

Percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate ('CER') for 2016 in order to present the underlying performance variance.

Figures for all performance measures, except where noted, are quoted after removing revenue of £7.5 million; impairment credit of £15.1 million; costs of £20.3 million; collecting commission of £3.3 million and £0.6 million of finance costs generated in the Slovakia.

We aim to make a difference in the lives of our 2.5 million customers by providing straightforward consumer finance. We specialise in providing unsecured credit responsibly to people with low to middle incomes who want to borrow small sums and repay in manageable, affordable amounts.

We have two distinct offerings:

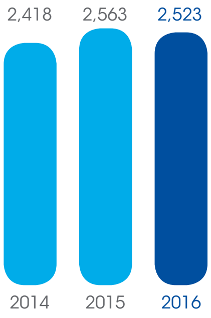
Home credit which includes our face-to-face, at-home service provided by over 25,600 agents and serviced by 7,000 employees.

Digital credit serving customers who prefer to take out and repay loans online.

Performance highlights

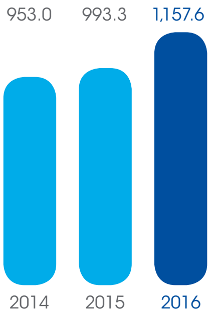
2,523 (2%)

Customers ('000)[1,2]



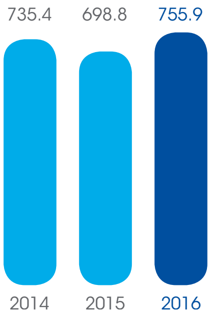
£1,157.6M +8%

Credit issued (£M)[1]



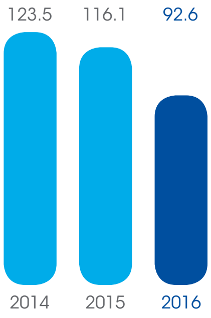
£755.9M +1%

Revenue (£M)[1]



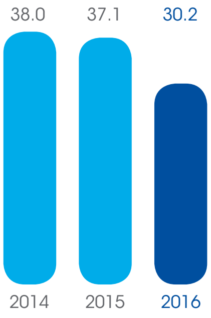
£92.6M (20%)

Profit before tax (£M)[3]



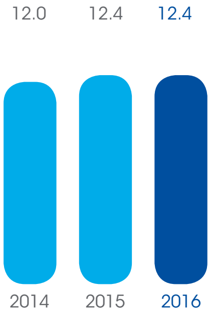
30.2p (19%)

EPS (p)[3]



12.4p

Dividend per share (p)



1. Excluding Slovakia
2. Adjusted following change to treatment of very slow paying customers in our home credit businesses
3. Excluding exceptional items of £23.3M in 2014 and £15.9M in 2015

Operating in an evolving sector

> “Demand for consumer credit is growing, customers are looking to borrow money in different ways, competitors are offering greater choice and regulatory challenge has increased.”
>
> **Dan O’Connor**
> Chairman

For our strategy see pages 10-11

As a leading player in the consumer credit business, we are operating in a rapidly evolving sector, one where regulation and competition have greatly intensified and where some of our customers are migrating to digital offerings.

Without doubt, 2016 was a difficult year for our company. Whilst great progress was made in IPF Digital, increasing regulatory challenges in Europe have had a negative impact on our results and share price. Trading in Mexico was difficult in the first half of the year, but I am glad to report an improved performance in the second half and into the early months of 2017.

Regulation

Let’s start with regulation. During 2016, regulation remained a top priority for the Board and management team. Once again, changes to regulations, and proposals in the pipeline, have impacted how we do business. Over the years, we have had a good track record of adapting our product offering to comply with new regulations and this has enabled us to continue serving our customers with the credit products they need and want. However, this was not the case in Slovakia when early in 2016 we were forced to take the decision to close our home credit business after new rate cap legislation was enacted. In Poland, the Board provided oversight and support to transition our business to operating under the total cost of credit regulations which were introduced in March 2016. However, a proposal to further tighten this rate cap published by the Polish Ministry of Justice in December 2016 was a disappointing development which has brought about a high degree of uncertainty for many credit providers in that market. The Board has confidence in the Polish team as they constructively engage with key stakeholders to get the best outcome for customers, the wider consumer finance sector and IPF.

Staying with Poland, at the beginning of 2017 we announced to the market that we had received an adverse decision from the Polish Tax Chamber with respect to two financial years, the details of which are explained in the financial review of this report. The decision, which we have appealed, was extremely disappointing especially so as the items in question are long-standing tax treatments that have previously been confirmed as correct by the Polish tax authority. I will reiterate what we said at the time of our announcement. We do not adopt aggressive tax strategies as evidenced by Provident Polska's average effective tax rate since 2008 which exceeds the Polish corporate income tax rate of 19%. We have also received very clear advice on the strength of our case and will defend our position robustly in court. Our CEO Gerard Ryan comments on these issues in more detail in his review on page 17.

Our strategy

We are operating in a dynamic business environment and continue to evolve our strategy to cater for that. We have a strong history of providing a valued home credit service to a specific sector of consumers who are not well served by banks. With the development of mobile technology we also recognise that many of these people are increasingly looking to borrow through digital channels. We are changing our business to adapt to these market dynamics and take advantage of new lending opportunities but our ethos to deliver simple consumer finance remains at the core of what we do. We will continue to offer home credit and it will be a significant part of the business but we have moved beyond our heritage to serve customers with digital offerings, an area of the business which has strong growth potential. This represents a very exciting opportunity for our company.

Financial performance

We delivered profit before tax of £92.6 million in 2016. This was lower than in 2015 reflecting a combination of lower home credit profit and higher investment in IPF Digital, offset partially by strengthening FX rates.

We delivered credit issued growth of 8% driven by a strong performance in our Southern Europe and IPF Digital businesses, together with a return to higher levels of growth in Mexico in the second half of the year. Customer numbers reduced year-on-year by 2% due, primarily, to competitive pressures in the Czech Republic and Poland, which was offset by growth in Mexico and IPF Digital. Credit quality remains good and impairment as a percentage of revenue at 26.8% remains within our target range of 25% to 30%.

Shareholder returns

We aim to run and develop high-yielding businesses to provide good returns to our shareholders. 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 (2015: 12.4 pence per share). The full year dividend represents a total payment equivalent to approximately 41% of post-tax earnings for the full year 2016 which is above our target pay-out rate of 35%.

Board and people

I was delighted to welcome Justin Lockwood to the Board on his appointment as Chief Financial Officer in February 2017. Justin, previously the Group's Head of Finance, assumed the role of Interim CFO in September 2016 following the departure of Adrian Gardner who resigned in order to pursue an alternative business opportunity. Justin brings to the Board a wealth of finance experience and depth of insight into the markets in which we operate. We are also searching for a new Senior Independent Director to replace Tony Hales who will have served almost ten years as a director at the time of our 2017 AGM. The Board asked Tony to continue as a director until our AGM in 2018 and I am pleased to confirm that he agreed to this.

The Board undertook market visits to Mexico and Poland during 2016. During these visits I was pleased to see just how strong our team's focus is on serving our customers well and this is reflected in our recent annual engagement survey findings.

Commitment to sustainability

We believe that it is important to ensure that we are acting ethically at all times. We provide a clear template to our people through our Code of Ethics and this year 99% of employees and 85% of agents undertook our ethics e-learning test.

We were pleased to be ranked in the top 7% in the financial services Supersector in the FTSE4Good ESG Ratings. This score puts IPF amongst the highest scoring financial services companies in the world for its responsible approach to business. We also received the highest possible scores in the Corporate Governance and Human Rights and Community categories. Our continuing excellent performance in the FTSE4Good index reflects our commitment to sustainable growth by operating in a responsible and ethical manner.

Outlook

Demand for consumer credit is growing but customers are looking to borrow money in different ways with competitors offering greater choice while regulatory oversight has increased. At this time it is not clear how draft rate cap proposals in Poland will impact our business but we are working to make sure that key stakeholders fully understand the potential implications of change and deliver legislation to better reflect both the needs of customers and businesses. In the meantime, we continue to focus on modernising our business to meet the changing needs of our customers, profitably and sustainably, in order to continue to deliver returns to you, our shareholders.

I would like to close by thanking all our team for their continued efforts and hard work. 2016 was a challenging year but we have the strategy and means to execute it to deliver for our customers, shareholders and other stakeholders.

Dan O'Connor
Chairman

Straightforward consumer finance…

We offer a range of unsecured consumer finance products, channels and brands to meet the specific needs and financial circumstances of our target customers.

Home credit

Products

- Home credit cash loans with agent service
- Money transfer loans direct to bank account
- Home, medical and life insurances
- Micro-business loans
- Provident-branded digital loans
- Weekly and monthly repayments
- Loan terms from 12 weeks to around 2½ years
- Typical loan value £400

£698M
Revenue

2.3M
Customers

Poland and Lithuania

713,000
Customers

1,756
Employees

Czech Republic

145,000
Customers

494
Employees

Digital

Products

- Instalment loans
- Revolving credit line facility
- Monthly repayments
- Instalment loan terms up to 3 years
- Loans up to £3,500
- Customers served online or through selected distribution partners

£58M
Revenue

194,000
Customers

Established markets – Finland, Estonia, Latvia and Lithuania

137,000
Customers

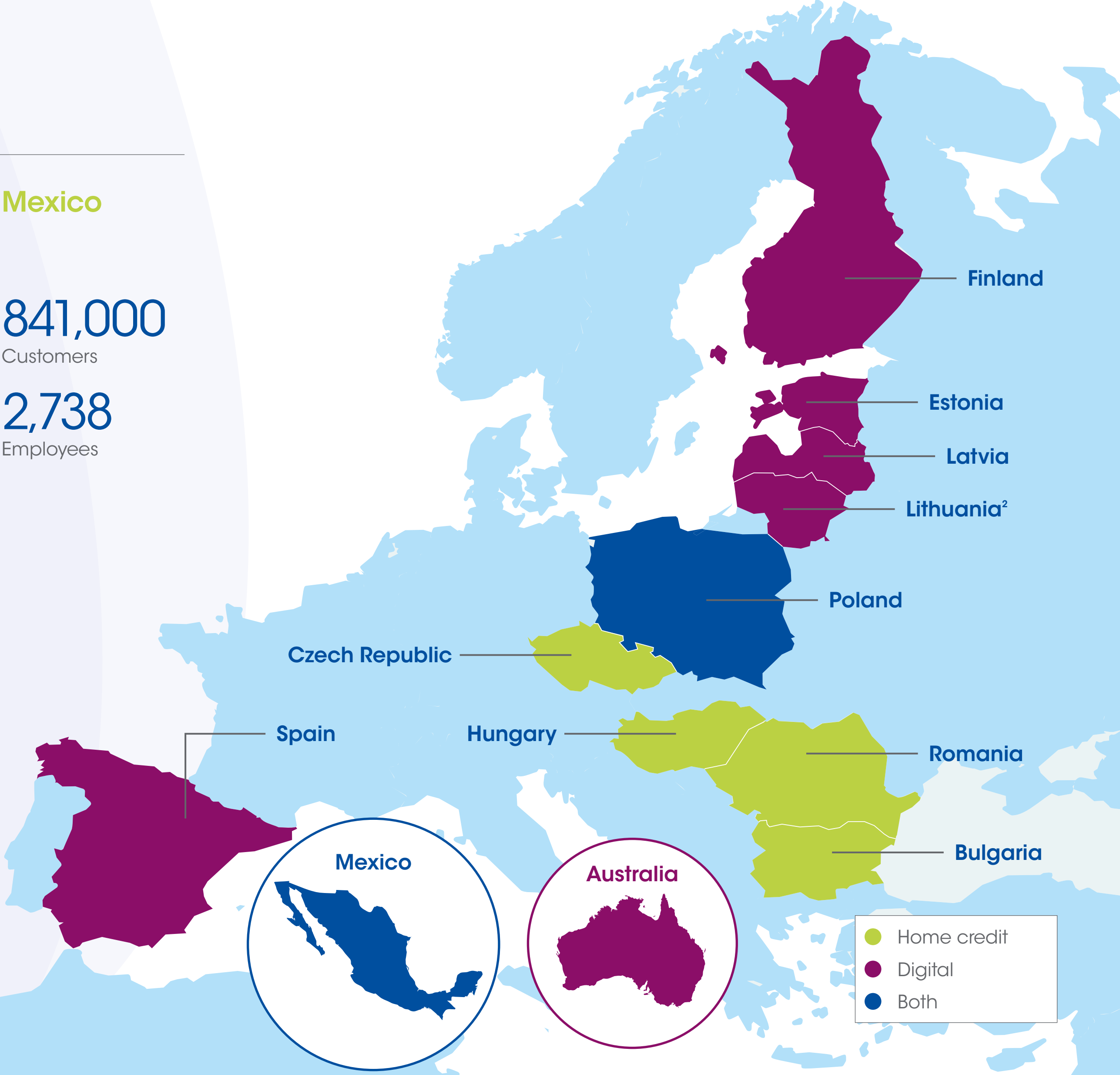
New markets – Poland, Spain Mexico and Australia

57,000
Customers

300
Employees

...across 12 markets

Southern Europe	Mexico
630,000 Customers	841,000 Customers
1,597[1] Employees	2,738 Employees


Finland
Estonia
Latvia
Lithuania[2]
Poland
Czech Republic
Spain
Hungary
Romania
Bulgaria
Mexico
Australia
● Home credit
● Digital
● Both

[1] Excluding agents in Hungary and Romania

[2] Lithuania home credit business merged into IPF Digital in December 2016

Providing
credit choice responsibly

Our customers want to borrow smaller amounts to pay for everyday items which they can repay in manageable, affordable instalments, either in their home to an agent or via their bank account through our money transfer or digital offerings.

Home credit customers

Our home credit customers have low, often fluctuating incomes and limited or no previous credit history. This means that many are far less likely to qualify for a remote digital loan and, as such, are best suited to our home credit offering. Our agents visit customers in their home to arrange loans and to collect repayments. Customers choosing to take the agent service value its convenience and repayment discipline, and the fact there are no extra charges for missed or late repayments during the contractual term of the loan. Our home credit lending model has operated successfully for more than 130 years and remains a relevant and important component of the consumer finance market.

Home credit

Typical customer features

- Low, fluctuating income
- People with families
- Little or no previous credit history
- Prefer agent service
- Need to manage finances carefully
- Seek flexibility

Digital customers

The rapid increase in mobile device technology is enabling a growing number of consumers in our target segment to borrow online. Our target digital customers earn low to middle incomes and tend to have high smartphone adoption levels. They also have a credit history which may allow them to qualify for a remote digital loan and some may have taken home credit loans previously.

Our digital lending model has operated successfully for over ten years and is a significant strategic opportunity to grow the number of customers we serve with instalment loans and credit line facilities.

Digital

Typical customer features

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

> “Our strategy reflects the changing dynamics in our markets.”
>
> **Gerard Ryan**
> Chief Executive Officer

Changing dynamics in consumer finance

Our CEO, Gerard Ryan, discusses the key market drivers in consumer finance and how they are influencing our strategy.

Q. Is demand for consumer credit growing?

Yes, demand is increasing in our markets driven largely by digital lending specifically short-term payday loans, and bank consolidation loans. We expect growth to continue albeit with some slowdown in developed markets over the medium term. We have identified significant growth opportunities within our business and our strategy reflects this.

Q. How is consumer behaviour changing?

Technology is driving changes in consumer behaviour. The rapid increase in smartphone and internet penetration is enabling a growing number of the best credit quality consumers in our target segment to borrow online. This has brought intense competition in some of our markets but also presents an exciting opportunity and, as a result, our digital business is growing strongly in this space.

It is important to note that, despite advances in technology, many of our home credit customers value the convenience and flexibility of our agent service and the forbearance it offers. Additionally, most of our home credit customers would not currently be accepted for a digital loan and so we see our home credit model maintaining its key competitive advantage.

Q. What are the biggest risks to your business?

In a nutshell, regulation and competition. Regulators and politicians continue to be active in our European markets and have introduced new legislation around price and affordability. It is clear that pre-election populist agendas have also resulted in less market consultation in the legislative process than would normally be the case. Regarding competition, preference for digital loans is driving growth in the unsecured consumer finance market in Europe and digital lenders are also starting to launch in Mexico, though this market is significantly less developed compared with Europe.

➔ **For CEO’s review**
see pages 16-19

“Demand is increasing in our markets driven largely by digital lending.”

Q. How have changes to regulation impacted your product offering and returns?

Where there are rate caps in markets in which we operate, we have adapted our business to ensure compliance. New total cost of credit regulations introduced in Poland in March 2016 meant we had to introduce a new product structure and the effect of this new requirement has, as expected, resulted in a reduction of profit and returns.

The impact of an amendment to the Civil Code in Slovakia in December 2015, which meant the charges for our previously optional agent service would need to fall within one loan agreement and therefore become subject to the existing price cap, was hugely disappointing. Following a detailed review early in 2016, we took the decision to wind down the Slovakian business.

In terms of our product offering, we have introduced digital lending which can, typically, operate within lower rate caps because of the lower cost base. We have also increased loan sizes and terms for our best customers and are offering insurance products to drive incremental profits.

Q. How are you responding to growing competition?

We now operate in a marketplace where payday operators, digital lenders and, to a lesser extent, banks are willing to take more risk and compete for our most creditworthy customers. To compete more effectively, we have responded by broadening our product offering to attract and retain a wider range of customers in our target segment. We now offer shorter and longer-term loans and micro-business loans for self-employed customers, preferentially priced loans for loyal customers and a range of insurance products sourced from third parties.

We also have a range of digital instalment loan offerings and a credit line facility available from IPF Digital under the Credit 24, Hapiloans, Creditea and Sving brands. Our Provident-branded digital offering in Poland is building momentum with 8,000 customers and we plan to introduce this product in the Czech Republic during 2017.

Q. What current regulatory risks are on the horizon?

In December 2016, the Polish Ministry of Justice proposed, amongst other details, a significant reduction to the existing cap on non-interest costs that may be charged by lenders in connection with a consumer loan agreement. This was an unexpected proposal, particularly as the existing cap had only been enacted in March 2016. During a 14-day public consultation, many organisations evaluated and commented on the draft bill, and we await an update from the Ministry of Justice on its proposal. We are engaging with Polish Government ministries and interested parties to try to achieve a more positive solution that is good both for consumers and businesses.

In Romania, more stringent and restrictive creditworthiness assessments for non-banking financial institutions and the requirement for the separation of duties between sales and credit vetting became effective at the end of 2016. These changes are expected to impact growth significantly in this market.

New licensing regulations were introduced in the Czech Republic in December 2016 with the key changes being the requirement for agents to have either a secondary education or at least three years’ of financial service experience, a clear separation of duties between sales and credit decisioning teams and modifications to proof of income processes. We submitted our licence application, made changes to our business processes and are offering assistance to agents to become accredited.

We continue to await the outcome of the appeal against new collections regulations introduced in Mexico in December 2015 banning weekend and late hour collections from customers’ homes. Lenders do not have to comply with the law until the case is closed and we are working with interested parties to change the respective elements of the legislation to better reflect both the needs of customers and businesses.

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

The results of the Brexit vote and US presidential election in 2016 have created global market uncertainty and the general expectation is that there may be longer-term impacts on global economic growth. Looking ahead, GDP forecasts for 2017 are for a continuation of recent moderate growth in our European markets but for a slowdown in Mexico.

Q. How do these factors feed into your strategy?

We are operating in a dynamic environment which is being driven increasingly by digital lending, and where competition and regulation have intensified. Our strategy, which is described overleaf, reflects these market drivers in seeking sustainable growth and enhanced profitability.

For our strategy
see pages 10-11

Our multi-channel approach

We are pursuing our strategy to deliver sustainable growth, enhance our profitability and make efficient use of capital.

Our strategy reflects the dynamic markets in which we operate where demand for unsecured, small sum credit is growing, particularly for digital loans, but where competition and regulatory oversight has also intensified.

In response to these market drivers, our operations are segmented into 'Growth' and 'Returns' focused businesses to reflect the fact that they are at different stages of maturity. We see significant growth opportunities in our IPF Digital and Mexico home credit businesses supported by investment in capital generated by our high returns European home credit businesses. To deliver this strategy, we are also modernising the business by investing in technology innovation and developing our people and capabilities.

Growth focus – IPF Digital

IPF Digital represents an exciting strategic priority for the Group driven by increasing demand for digital loans. We are focused on growing this business, particularly in our four new markets of Poland, Spain, Australia and Mexico, and IPF Digital is expected to deliver its maiden profit in 2018.

Growth focus – Mexico home credit

While performance in the first half of 2016 was below our original expectations, we continue to believe that Mexico offers significant growth potential for our home credit offering and therefore we will continue to invest in controlled geographical expansion and new product lines.

Returns focus – European home credit

Our European home credit businesses are highly cash and capital generative. We manage these businesses to provide a good service to our customers and optimise returns to fund growth in our IPF Digital and Mexico home credit businesses, and to provide progressive returns to our shareholders.

Market drivers

Strong demand for unsecured consumer lending

- Consumer credit growing
- Digital lending driving growth
- Low single digit GDP growth

Increased competition

- Digital lenders and banks taking best customers from home credit
- No new home credit operators
- Intense competition expected to remain

Growing consumer preference for digital options

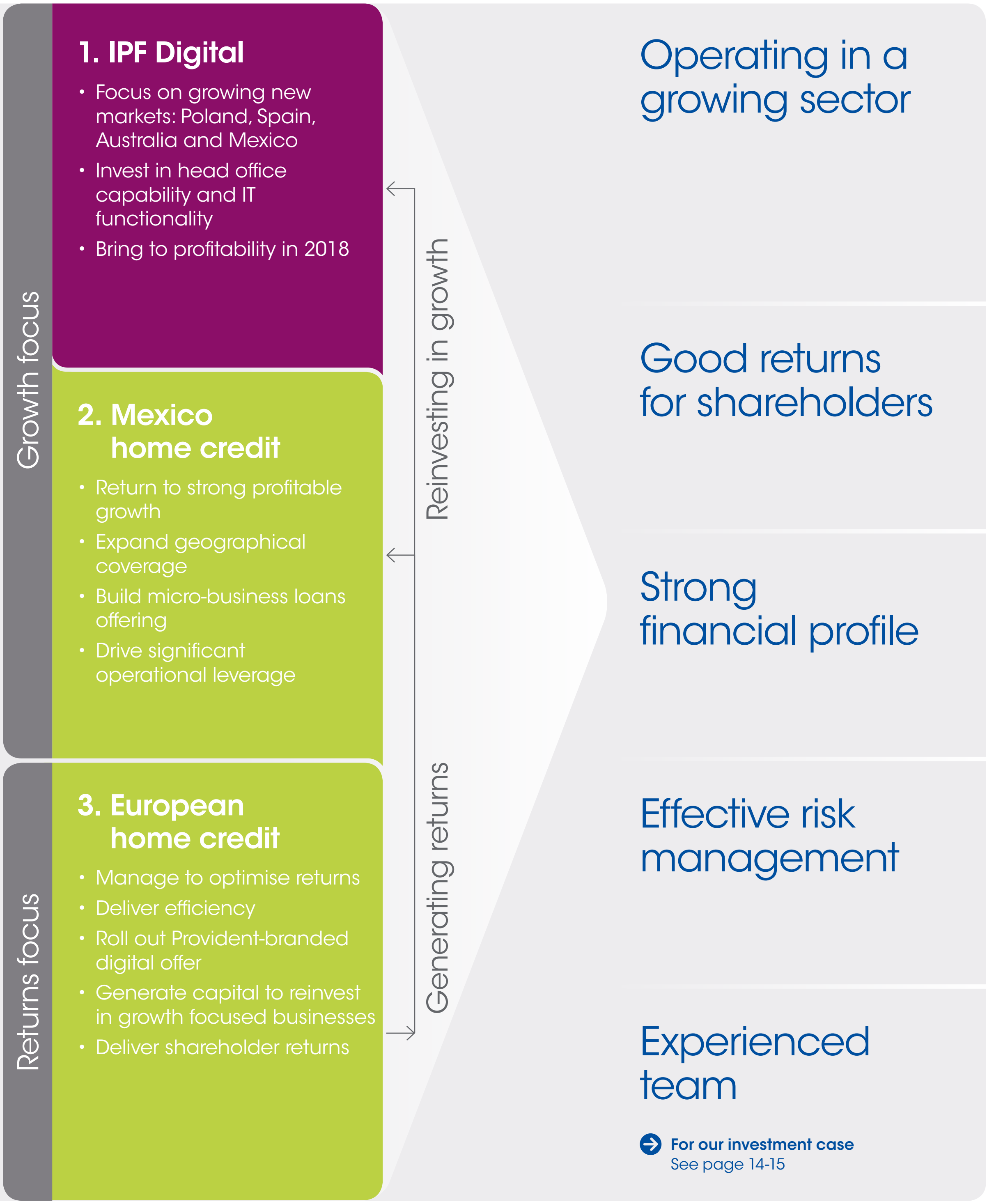
- Increased smartphone and internet penetration
- Home credit remains very important in our credit sector

Increased regulatory oversight driving lower margins and restricting issue values

- Regulators increasingly active in consumer finance
- Focus on price and affordability
- Regulatory risk will continue

Our strategy and priorities

Our investment case



Growth focus

1. IPF Digital

- Focus on growing new markets: Poland, Spain, Australia and Mexico
- Invest in head office capability and IT functionality
- Bring to profitability in 2018

2. Mexico home credit

- Return to strong profitable growth
- Expand geographical coverage
- Build micro-business loans offering
- Drive significant operational leverage

Returns focus

3. European home credit

- Manage to optimise returns
- Deliver efficiency
- Roll out Provident-branded digital offer
- Generate capital to reinvest in growth focused businesses
- Deliver shareholder returns

Reinvesting in growth

Generating returns

Operating in a growing sector

Good returns for shareholders

Strong financial profile

Effective risk management

Experienced team

For our investment case
See page 14-15

Making a difference with straightforward consumer finance

Delivering value for our stakeholders

IPF offers both home credit and digital products. This business model generates good sustainable returns for shareholders, while delivering value for our customers, employees, agents and the communities in which we operate.

We know our customers well and understand their specific needs and financial circumstances. Everything we do revolves around the relationships we have with our customers – from the unique relationships our agents have with them in their home, to the service we provide remotely to our digital customers. Our success depends on serving them well and retaining their custom.

Our business model is underpinned by our values and we operate and make decisions consistent with being responsible, respectful and straightforward. High standards of governance are also important to our sustainability and we actively identify, manage and aim to mitigate the principal risks facing our business, as described on page 37.

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

Resources critical to our business model

How we deliver value

Home credit

Our home credit business model has operated for more than 130 years and generates good returns. We serve 2.3 million customers and the majority choose the convenience and flexibility of the weekly or monthly agent service. Many of our customers have limited or no previous credit history and their low, often fluctuating, income means they are less likely to qualify for a digital loan.

Responsible lending

For both our home credit and digital business models, credit risk is managed carefully through robust application scoring systems, supported by credit bureaux, and for existing customers we use powerful behavioural models. We have a 'low and grow' strategy, starting new customers on smaller, shorter-term loans and only offer more credit once their creditworthiness is proven.

Creating value for our stakeholders

For our strategy
See pages 10-11

For principal risks
See pages 36-43

Relationships

Open and honest engagement with all stakeholders is critical, particularly the relationships with our customers to ensure they receive the products and service they need.

People

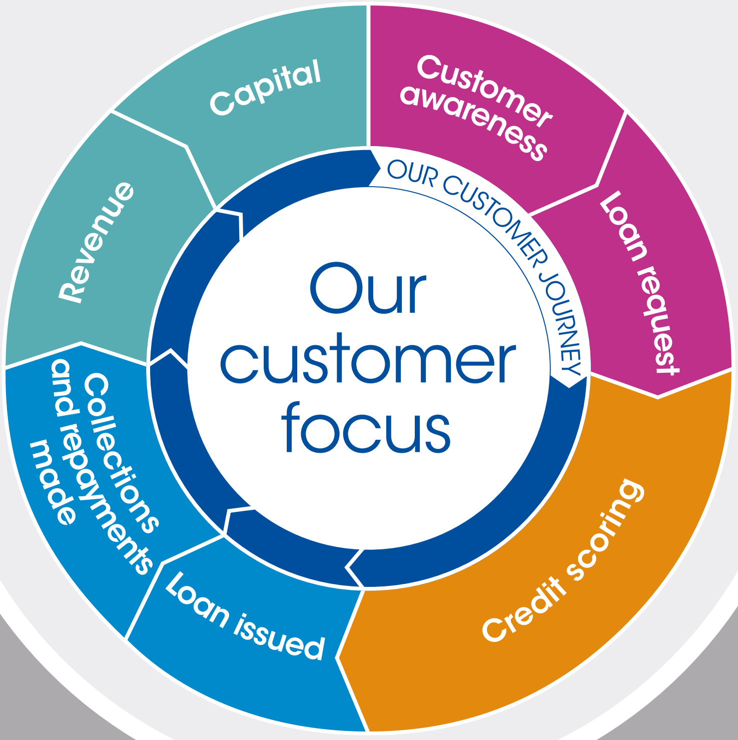
We resource the business with skilled and knowledgeable employees and agents who implement our strategy and ensure our customers are served well.

Technology

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

Financial

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



Digital

Our digital business model has operated successfully for over 10 years and is profitable in our established markets. The rapid increase in mobile device technology is enabling some consumers in our target segment to borrow online and digital lending is an important growth opportunity. Our customers have low to middle incomes and a credit history that may enable us to offer them a remote digital loan.

In our home credit business, agents meet customers in their homes and are critical to good lending decisions. They are also rewarded largely on the amount of money they collect from customers which supports responsible lending.

Customers

We meet the everyday needs of our customers through our home credit and digital businesses.

People

We are committed to supporting the development and engagement of our people in line with our strategic goals.

Communities

We are a responsible, ethical and inclusive lender, bringing long-term benefits to the communities we serve.

Shareholders

We have a solid track record of delivering profit and returns for our shareholders.

Our investment case

We are a profitable, well-funded business with a good track record of offering products that are valued by our customers and delivering sustainable returns to shareholders.

We have long-standing experience of profitably serving our segment of customers who have higher credit risk profiles with our home credit offer and our digital business model offers significant growth potential.

Operating in a growing sector

There is growing demand for unsecured, small sum consumer credit. Our business model focuses on serving customers with low to middle incomes who are underserved by mainstream financial operators. We know these customers better than most and have responded to their changing needs with products that meet their specific requirements and financial circumstances. We see significant growth potential in our IPF Digital and Mexico home credit businesses.

2.5M
Customers

For more information see market review Q&A on pages 8 to 9

Good returns for shareholders

We are a long-established profitable business with a track record of providing attractive returns to shareholders and reinvesting for growth. We have achieved this even during periods of macroeconomic and financial market volatility, and periods of competitive and regulatory change for our business.

11.6%
Return on assets

17.7%
Return on equity

For more information see financial review on pages 32 to 35

Strong financial profile

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

45.7%
Equity to receivables capital ratio (target 40%)

£429.5M
Net assets

£152M
Headroom on debt facilities

For more information see financial review on pages 32 to 35

Effective risk management

We have a good track record of responding to risk, and have adapted our business and product offering to comply with consumer credit regulation. Our control framework and the processes we implement to identify and manage risks underpin our decision-making. This dynamic, well-developed system is integrated at all levels of the Group and aligned to our strategic objectives to deliver long-term growth and protect our people, assets and reputation.

For more information see principal risks and uncertainties on pages 36 to 43

Experienced team

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

65%
Agent retention

74%
Employee retention

For more information on our Board and committees see pages 46 to 47

"We have seen an unprecedented level of regulatory change which has impacted the provision of finance to the customers we serve."

Gerard Ryan
Chief Executive Officer

Responding to a changing environment

We are an international consumer finance business that provides small sum loans to underbanked and underserved consumers and micro-business owners. Whilst our business has changed significantly in the last four years, our ethos remains consistent; to provide finance in an ethical and transparent way and to work with our customers to help them to repay their loans in a manageable and timely fashion.

The regulatory landscape

During the past two years we have seen an unprecedented level of regulatory change which has impacted the provision of finance to the customers we serve. Without doubt, our markets need and benefit from well thought through regulation which enables the provision of loans to consumers on lower incomes who are underserved by mainstream financial providers. Our challenge today is to ensure regulators deliver good regulation in a way that ensures that the customer has choice, is provided with unambiguous documentation and is helped if they find it difficult to make repayments due to changed circumstances.

Unfortunately we have seen new regulations, both proposed and enacted, that have not been thought through properly and that already do, or ultimately could in the future, undermine the provision of consumer finance in a fair and transparent manner. In December 2015, we saw the introduction of legislation in Slovakia that required the charges for our optional agent service to be included in a single loan agreement and therefore subject to the existing price cap. This resulted in many responsible providers, including our business in Slovakia, withdrawing from the marketplace.

In December 2016, we saw a proposal from the Ministry of Justice in Poland that would significantly constrain the provision of finance to underbanked and underserved customers in Poland. This proposal was published without prior consultation with consumers or interested parties and followed significant changes introduced by the Ministry of Finance earlier in the year to the way consumer finance could be provided. At the time of writing this report, it is unclear what form these proposed regulations in Poland will take but the current draft could change the way we do business and, in turn, limit our ability to invest in the other areas of our Group. We are engaging with Polish Government ministries and interested parties to try to achieve a more positive solution that is good both for consumers and businesses.

For operational review
see pages 24-31

Notwithstanding the nature of the regulatory landscape in Europe, we continued to execute our Group strategy, focusing on ensuring that our European home credit businesses become more efficient and diverse and using the returns generated by these operations to invest in our growth businesses – Mexico home credit and IPF Digital. Details of our strategy can be found on pages 10 and 11.

A look back at 2016 trading

In summary, Group profit before tax was £92.6 million in 2016, £23.5 million lower than 2015 reflecting a combination of lower home credit profit and higher investment in IPF Digital offset partially by strengthening FX rates. Our businesses in Southern Europe and IPF Digital closed the year delivering continued strong growth. I am pleased to report that the actions taken to address performance issues in Mexico in the first half of the year have delivered faster growth and our business in Poland coped well with adapting to the new total cost of credit regulations introduced in the first quarter.

As part of my review of the year, it is also important to note that our portfolio quality remains robust. We measure our cost of bad debt by looking at impairment as a percentage of revenue and we aim to stay within a range of 25% to 30%. For 2016, we recorded impairment as a percentage of revenue of 26.8%, marginally higher than 2015 but still at the lower end of our range. We continue to fund our balance sheet in a conservative fashion and our main source of debt finance remains bonds, the bulk of which do not need to be refinanced until 2020 or 2021.

European home credit

In Europe, whilst our home credit businesses had to cope with well-documented regulatory challenges, the consumer finance markets as a whole were in growth mode. In Southern Europe, credit issued growth of 17%, a good collections performance and tight management of costs supported the delivery of strong profit growth. We also had to meet new employment regulations in Romania where 2,800 previously self-employed agents were made employees during the year.

Changes in regulation have had a dramatic effect on our business in Poland and Lithuania. In Poland, the new cap on non-interest costs on consumer loans came into effect on 11 March 2016 and our leadership team implemented a new product structure to ensure that we were compliant with the new regulations. We had earlier indicated to shareholders that we expected the unmitigated impact on our profitability could be of the order of £30 million but that we expected to be able to mitigate up to half of this. I am pleased to say that the customer response to these new regulations was broadly in line with our expectations and we continue to expect that our Polish business will be able to meet these financial estimates. The market has not seen any major competitors depart at this time, but clearly the proposed new regulations published by the Ministry of Justice in Poland could change this situation. Following the clarification of debt-to-income ratios in Lithuania at the start of 2016, we took the decision to move to a fully digital business in this market operated by IPF Digital. The lower cost of distribution of our digital channel means it is more capable of adapting to these requirements.

> "Our businesses in Southern Europe and IPF Digital closed the year delivering continued strong growth."

Also in Poland at the turn of 2017, we received adverse decisions from the Polish tax authority in respect of the 2008 and 2009 financial years on two matters that had been accepted as correct during audits of previous years. In order to lodge an appeal against the decisions we were required to pay the assessments totalling c. £38 million and we plan to robustly defend our position in court. Further detail on this matter can be found in the financial review on page 35.

Our business in the Czech Republic continued to contract, driven by intense competition and a significantly improved macroeconomic situation that has meant a reduction in the number of consumers in our sector who wish to or need to borrow. We are, however, adapting our product offering and brand to appeal to a wider pool of potential customers. Our exit from Slovakia is progressing well and is currently ahead of our original estimates in terms of the effectiveness of our collections process as we wind down our home credit infrastructure in that country.

Mexico home credit

In the second half of 2016 we were successful in delivering higher levels of growth and improved collections in our Mexican business following a first half performance which was below our original expectations. The causes for our underperformance were, in the main, a combination of internal operational issues. In response, we slowed the pace of business change and geographic expansion, redirected experienced leaders to our established regions and implemented a 'back to basics' programme in our operations. As a result of these corrective actions we saw a return to faster levels of growth and improved collections. Credit issued grew by 13% in the second half of the year, giving us 8% growth for the year as a whole. We also delivered a significant improvement in our collections effectiveness which should translate into a step down in impairment in the first quarter of 2017. I am confident we can maintain this momentum and continue to take advantage of the growth potential in this market.

IPF Digital

IPF Digital continues to go from strength to strength and delivered strong growth in the value of loans issued of 41% on a proforma basis. Our product and pricing strategy combined with excellent customer service is resonating well with our customers and we experienced growth in all of our markets. In September, we launched our digital offering in Mexico to appeal to the growing number of consumers looking for digital loans and where smartphone, internet and social media penetration is growing at a rapid pace. We will draw on all of our digital experience across IPF Digital to help us get this business established and see the early momentum achieved in Spain as a positive indicator.

Competitive forces

Five years ago, payday lending was virtually unheard of in our markets; today it is widespread. With the introduction of payday lending came offers of "first loan for free" and significantly shorter credit decisioning times before customers could access credit. As the year progressed, we saw the proliferation of payday lenders in virtually all of our markets. In addition, having repaired their balance sheets, we saw the risk appetite of banks in Europe grow and their advertising start to target the most creditworthy segment of our customers with offers of instalment and consolidation loans. Whilst remote lending has certainly taken market share, it is clear that over the longer term, digital lending will comfortably co-exist with home credit. The simple reason for this is that through the participation of an agent, it is possible for a home credit business to gain a greater understanding of a customer's circumstances and can therefore lend responsibility to that individual where a remote lending business cannot. I believe that having the expertise to provide both home credit and digital products will offer significant advantage over our direct competitors.

Thinking ahead

Our strategy, which we announced early in 2016, set out a clear vision of a group that would use the uniqueness of having both home credit and digital business models within the one family to drive growth. It is clear today that this combination is more important than ever and that it will allow us to adapt to changing circumstances. Our European home credit businesses are producing very good returns which are being used to fund the growth of our IPF Digital and Mexico home credit businesses.

We have a major cost reduction programme underway in our European home credit businesses which delivered cost savings of around £11 million (annualised c. £14 million) in 2016 and we will continue to target further savings in 2017.

These efficiencies are being driven by a well-structured technology investment programme that will not only take structural cost out of the business but will also enhance our customer-facing capabilities, putting mobile technology in the hands of our agents for the first time. The initial live test of our MyProvi mobile collections technology began in Hungary, Poland and the Czech Republic during the second half of the year and we plan to roll out the app to all agents in the Czech Republic and Hungary in the first half of 2017. A second phase roll out of the app in Poland and Romania is planned later in the year.

We are building on the technology platform we acquired through our digital business to enable us to offer loans to prospective customers who apply but do not subsequently qualify for one of our digital loans to get a second opportunity through our agent model.

As we look out to the next three years, we aim to have a group that has a significantly larger portion of customers sourced through digital channels while at the same time the major part of the business will continue to be based on the provision of home credit through an agent workforce. The funding of the investments required for this transformation will come from our European home credit businesses whilst we leverage the technology from our digital business to drive the Group forward faster and more efficiently.

Undoubtedly this strategy is predicated on our ability to work with any new regulatory changes that arrive in our markets during this period and we remain committed to ensuring good regulation prevails. Our focus in Poland at the moment is on achieving such an outcome; regulatory changes that provide protection to consumers whilst, at the same time, encouraging a transparent and robust consumer lending sector.

Finally, when I visit our markets I see a hugely experienced and resilient team who are motivated to serve our customers in the most efficient and responsible way. We expect the competitive and regulatory landscape to remain challenging but we will continue to work with all our stakeholders in order to shape the business to operate successfully within a changing market environment.

Gerard Ryan
Chief Executive Officer

Progress on our strategy

Our success in delivering our strategy depends on the effective execution of our business plans and being able to respond to changing market conditions, opportunities and threats.

Strategic priorities	2016 performance	2017 focus	KPIs		Risks
IPF Digital **Growth focus**	• Established markets more than doubled profit growth to £12.4 million • New markets growing strongly	• Drive profit growth in established markets • Continue to deliver growth and progressive credit quality improvements in new markets • Position the business for profitability in 2018	194,000 Customers 41% Credit issued growth* 51% Revenue growth*	30.1% Impairment % revenue 79.0% Cost-income ratio (£9.3M) Loss before tax	• Regulatory • Change management • People • Competition and product proposition • Business continuity and information security • Reputation • World Economic environment • Safety • Taxation • Credit • Funding, market and counterparty
Mexico home credit **Growth focus**	• Slower than expected growth in the first half of the year • Improved performance in the second half of 2016 and building growth momentum • Impairment elevated • Investment in geographical expansion • Introduced micro-business loans	• Maintain growth momentum • Further improve collections performance to drive down impairment • Invest further in geographical expansion and micro-business loan product • Focus on cost leverage in established regions	841,000 Customers 8% Credit issued growth 10% Revenue growth	36.5% Impairment % revenue 39.6% Cost-income ratio £11.7M Profit before tax	
European home credit **Returns focus**	• Strong profit growth in Southern Europe • Poland-Lithuania impacted by regulation and competition • Continued contraction in the Czech Republic • Good credit quality and collections • Good progress in Slovakia – collections ahead of expectations	• Respond to any changes in regulatory landscape in Poland • Optimise lending and seek alternative income streams • Focus on costs • Grow Provident-branded digital offering in Poland and launch in the Czech Republic • Embed changes required by new regulations in the Czech Republic and Romania	1.5M Customers 3% Credit issued growth (6%) Revenue growth	22.9% Impairment % revenue 38.1% Cost-income ratio £106.7M Profit before tax	

* Proforma

For our KPIs see pages 20-21

For our principal risks and uncertainties see pages 36-43

Measuring
our performance

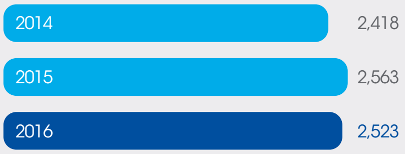
We assess our performance against the following key performance indicators, each of which is linked to our strategy. We use these KPIs to monitor the performance of the business to ensure we deliver value for our stakeholders.

For our strategy
see pages 10-11

Non-financial KPIs

Customers (`000)[1 2]

2,523



The total number of customers across the Group reduced by 2% as a result, primarily, of competitive pressures in the Czech Republic and Poland offset by growth in Mexico and IPF Digital.

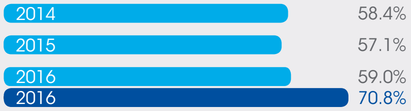
Rationale:

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

Customer retention (%)

59.0 Home Credit

70.8 IPF Digital



The proportion of customers retained for their third or subsequent loan increased to 59% in our home credit business. For the first time we have included IPF Digital's score and this also indicates a high level of retention.

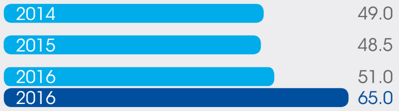
Rationale:

Our ability to retain customers is central to achieving our growth ambitions and is a key 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.

Customer service score

51.0 Home Credit

65.0 IPF Digital



A net promoter score based on those customers who would recommend our services to a colleague or friend. In 2016, the score for home credit improved to 51.0. For the first time, we have included IPF Digital's score which is measured using a slightly different methodology and also indicates a strong level of recommendation.

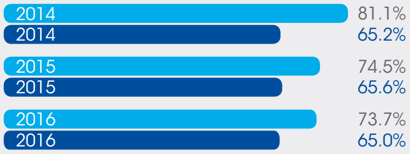
Rationale:

Excellent customer service drives improved and sustained revenue growth. Existing customers become advocates of our brand and product.

Employee and agent retention (%)

73.7% Employee

65.0% Agent



The proportion of employees and agents who have been working with us for more than 12 months was maintained at similar levels to those in the prior year.

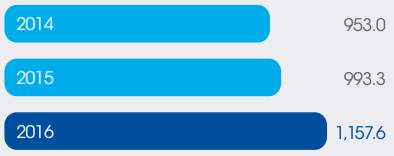
Rationale:

Experienced people help us achieve and sustain strong customer relationships and deliver a high quality service, both of which are central to achieving good customer retention. Good retention also helps reduce costs of recruitment and training, enabling more investment to be directed to people development.

Financial KPIs

Credit issued (£M)[1]

£1,157.6M



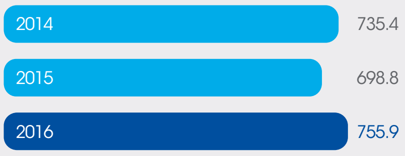
Credit issued, the value of money loaned to customers measured over the previous 12 months, increased by 8% driven by strong performances by Southern Europe and IPF Digital, together with a return to higher levels of growth in Mexico in the second half of the year.

Rationale:

This is a key driver of profit. We adopt a 'low and grow' strategy and only issue more credit to a customer once his or her creditworthiness is proven.

Revenue (£M)[1]

£755.9M



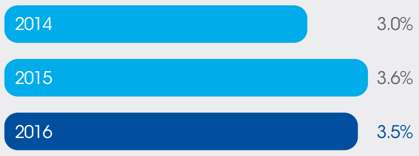
Revenue, which is income generated from customer receivables, increased by 1% driven primarily by our customer retention strategy to serve more customers with longer-term, lower-yielding products and the impact of a lower total cost of credit rate cap in Poland.

Rationale:

Most of our business costs are relatively fixed. As revenues increase in line with customer numbers and receivables, new markets move into profitability, and profits and margins grow rapidly.

Credit exceptions (%)

3.5%



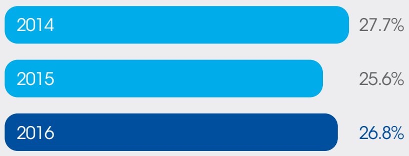
Credit exceptions are recorded in our home credit business in cases where lending has exceeded one or more credit parameters defined in the Group credit rules. The level of credit exceptions was maintained in 2016 at 3.5%.

Rationale:

Our credit policies set out our basis for responsible lending. They also set limits for lending activity that reflect our credit risk appetite.

Impairment (%)[1]

26.8%



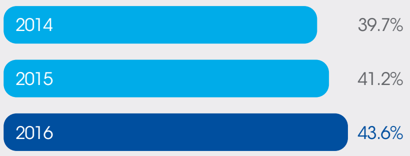
Impairment is the amount charged as a cost to the income statement as a result of customers defaulting on contractual loan payments. Impairment as a percentage of revenue remains within our target range of 25% to 30%.

Rationale:

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

Cost-income (%)[1]

43.6%



The direct expenses of running the business as a percentage of revenue, excluding agents' commission, increased by 2.4 ppts driven by investment in IPF Digital and reducing revenue yield, offset partially by the initial impact of our cost-optimisation programme.

Rationale:

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

[1] Excluding Slovakia

[2] Adjusted following change to treatment of very slow paying customers in our home credit businesses

Managing sustainability

Sustainability is important for all responsible businesses but for a business that lends to underbanked consumers who typically have low, often fluctuating incomes and little or no previous credit history, it is even more critical. Our sustainability strategy is focused on guiding our business so it can make the most of future lending opportunities by managing financial, social and environmental risks and opportunities.

We proactively maintain relationships with all stakeholders. Our Code of Ethics clearly says how we work and applies to all employees and agents. It highlights our commitment to uphold responsible business practices and meet or exceed legal requirements.

Sustainability objectives

Our Sustainability strategy is framed around five material issues – responsible lending, ethics, community, environmental and, going forward, people. Our sustainability objectives, which are set in four-year periods, are aligned with our key material issues and aim to protect our reputation and deliver long-term sustainable growth. The outcome of the latest reporting period for 2013-2016 is detailed below together with our 2017-2020 objectives.

Material Issues	2013 – 2016 objectives		2016 result
Responsible lending	Promote responsible lending and financial inclusion throughout our core business activities and community investment.	✓	• Product development and marketing teams consider ethical principles • All markets have access to local credit bureaux to support responsible credit risk decisions • Support for financial literacy programmes targeting our customer segment and the general public
Ethics	Embed Code of Ethics throughout the organisation. Ensure employees and agents are aware of, and actively engage with the Code.	✓	• Annual online training for employees and agents • Ethics part of induction for new employees and agents • Annual Ethics Week held across all markets • Ethics Working Groups established in all markets
Community	Renew community investment programmes to show that 'Provident nurtures talent' and delivers impacts, both for the business and the communities in which we operate.	✓	• All markets involved in supporting local communities • £489,000 invested in community programmes in 2016 • 2,740 employees volunteered in company time in 2016 • 48% of community investment supported education projects
Environmental management	Manage our environmental impact and reduce our carbon footprint by 7.5% per customer (compared with 2013 levels).	✓	• Carbon footprint reduced (Scope 1 and 2) per customer by 12.7% in 2016 compared with 2013 levels • Environmental Management System in place and all markets contribute to environmental KPIs
People			

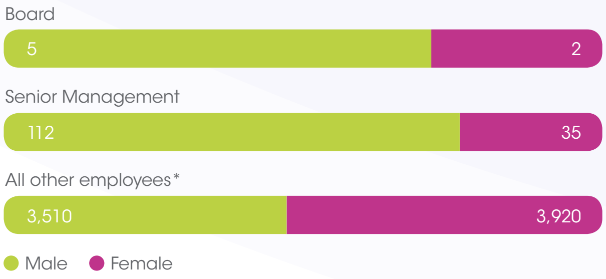
Human rights

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 on our website at www.ipfin.co.uk.

Diversity

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

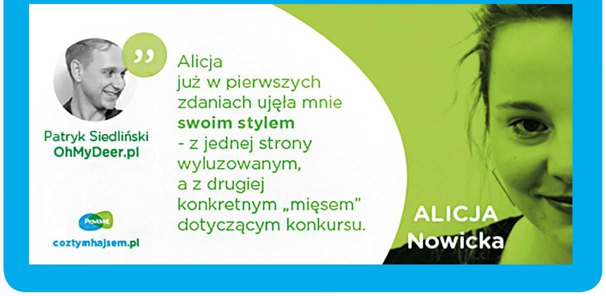
Gender split at 31 December 2016



* Excluding agents in Hungary and Romania.

Case study: Responsible lending – 'what about the dosh.com'

Across all of our Provident markets we focus on promoting financial literacy to support responsible lending. Better educated consumers make better borrowing decisions. In Poland we reach young adults through an online blog known as 'What about the dosh'. Written by three bloggers, with guest appearances by other financial experts, they talk about managing their money through their everyday experiences. This popular blog is seen as authentic and relevant to young people. Readers are also invited to comment and share their own experiences.



Alicja już w pierwszych zdaniach ujęła mnie **swoim stylem** - z jednej strony wyluzowanym, a z drugiej konkretnym „mięsem" dotyczącym konkursu.

2017 – 2020 objectives

Support financial literacy programmes to help customers and the general public make informed financial decisions.

Continue to embed ethical decision making into our business at a strategic and operational level.

Support the communities in which we operate through volunteer programmes, donations and other initiatives.

Continue to monitor and decrease the environmental impact of our operations.

Promote employee and agent well-being and uphold human rights principles in all our business relationships.

85%
Agents completed ethics training in 2016

99%
Employees completed ethics training in 2016

2,740
Employees volunteered in company time

For more information on our sustainability programme, material issues, business ethics and human rights visit the sustainability section of our website at **www.ipfin.co.uk**

2016 performance

Group profit before tax in 2016 was £92.6 million, £23.5 million lower than 2015, reflecting a combination of lower home credit profit and higher investment in IPF Digital offset partially by strengthening FX rates as set out in the following table.

	2015 reported profit £M	Underlying profit movement £M	IPF Digital investment £M	FX rates £M	**2016 reported profit £M**
Home credit	134.9	(34.1)	–	16.0	**116.8**
Digital	(4.2)	–	(4.7)	(0.4)	**(9.3)**
Central costs	(14.6)	(0.3)	–	–	**(14.9)**
Profit before taxation and exceptional items	116.1	(34.4)	(4.7)	15.6	**92.6**

The reduction in underlying profit before tax in our home credit business was driven primarily by three issues - the introduction of new total cost of credit legislation in Poland; higher levels of impairment in Mexico following a first half performance which was below our expectations; and the wind down of our Slovakian operation. These issues were offset partially by strong profit growth in Southern Europe. Our digital business performed well and we delivered good profit growth in our established digital markets whilst continuing to invest in new markets and head office functional capabilities. Central costs increased by £0.3 million which reflects the restructuring costs associated with our UK head office reorganisation in the first half of the year. During 2016, we benefited from a strengthening of FX rates against sterling in most markets which resulted in a positive impact on profit before tax of £15.6 million.

We delivered credit issued growth of 8% driven by a strong performance in our Southern Europe and IPF Digital businesses, together with a return to higher levels of growth in Mexico in the second half of the year. Customer numbers reduced year-on-year by 2% as a result, primarily, of competitive pressures in the Czech Republic and Poland which was offset by growth in Mexico and IPF Digital. Impairment as a percentage of revenue was 26.8% and remains within our target range of 25% to 30%.

Outlook

We expect the competitive and regulatory environment to remain challenging. In particular, the outcome of the Polish Ministry of Justice's proposals to further reduce the existing cap on non-interest charges in this market remains a major focus for us. Regulatory changes in Romania are expected to significantly impact growth rates in this market in 2017.

We see further opportunities to optimise the performance of our European home credit businesses and will use technology to deliver efficiencies and returns to invest in our growth operations and to provide returns to our shareholders. In Mexico, we plan to maintain the growth momentum achieved during the second half of 2016 and deliver effective collection. We are confident of the outlook for IPF Digital and expect to deliver further strong growth and are targeting profitability in 2018.

Home credit

Our home credit business delivered profit before tax of £116.8 million in 2016 which comprised £118.4 million from our on-going businesses and a loss of £1.6 million in Slovakia. Underlying profit before tax (excluding Slovakia) reduced by £28.7 million driven primarily by the introduction of new total cost of credit legislation in Poland, higher levels of impairment in Mexico and the contraction of our business in the Czech Republic. During the period we benefited from a strengthening of FX rates against sterling in our ongoing businesses that had a positive impact of £14.9 million.

The following table shows the performance of each of our home credit markets highlighting the underlying profit movement and impact of stronger FX rates against sterling.

	2015 reported profit £M	Underlying profit movement £M	FX rates £M	**2016 reported profit £M**
Poland-Lithuania	69.0	(20.8)	8.0	**56.2**
Czech Republic	14.7	(3.5)	2.4	**13.6**
Southern Europe	26.6	5.0	5.3	**36.9**
Mexico	21.9	(9.4)	(0.8)	**11.7**
Ongoing home credit	132.2	(28.7)	14.9	**118.4**
Slovakia	4.5	(7.2)	1.1	**(1.6)**
Spain	(1.8)	1.8	–	**–**
Profit before taxation and exceptional items	134.9	(34.1)	16.0	**116.8**

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

	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers (`000s)	2,429	**2,329**	(100)	(4.1)	(4.1)
Credit issued	906.6	**1,007.4**	100.8	11.1	3.7
Average net receivables	677.4	**769.0**	91.6	13.5	5.6
Revenue	667.7	**697.8**	30.1	4.5	(1.9)
Impairment	(170.2)	**(185.1)**	(14.9)	(8.8)	(5.1)
Net revenue	497.5	**512.7**	15.2	3.1	(4.2)
Finance costs	(36.5)	**(42.4)**	(5.9)	(16.2)	(8.2)
Agents' commission	(81.0)	**(83.4)**	(2.4)	(3.0)	2.9
Other costs	(247.8)	**(268.5)**	(20.7)	(8.4)	(2.2)
Profit before taxation and exceptional items	132.2	**118.4**	(13.8)	(10.4)	

Our home credit businesses delivered a 4% increase in credit issued with growth of 17% in Southern Europe and improved rates of growth in Mexico during the second half of the year. In contrast, credit issued contracted in Poland and the Czech Republic, the former being driven by the legislative changes introduced in March 2016. Customer numbers contracted 4% year-on-year to 2,329,000.

Average net receivables increased by 6% driven by credit issued growth during the year. Revenue reduced by 2% reflecting lower revenue yields which reduced by 7.9 ppts driven by a combination of the lower price cap in Poland and our customer retention strategy to serve more customers with longer-term, lower yielding products. Credit quality and collections are good overall with annualised impairment as a percentage of revenue of 26.5%.

Other costs increased by £5.8 million at CER (Actual: £20.7 million) which comprised a £3.7 million reduction in costs in our European home credit businesses offset by a £9.5 million increase in Mexico where we are investing to grow the business through geographic and channel expansion. We continued to focus on improving efficiencies within our European home credit businesses and the cost optimisation programme resulted in underlying savings of around £11million (annualised c. £14million) and a reduction of 430 roles in 2016. These were offset partially by regulatory-related cost increases in Poland and Romania, restructuring costs and investment in our Provident branded digital offering. The cost-income ratio increased year-on-year by 0.7ppts to 38.5%.

Following a review of the most effective collections processes to apply to very slow paying customers, historically managed by our field sales and service teams, we transferred around 120,000 customers to our central debt recovery teams. This is expected to support further operating efficiencies and improve our overall net cash inflows. Given that home credit customer numbers in this report relate solely to those managed by our field teams, we have restated 2015 customer numbers to show underlying trends.

Finance costs increased by 8% reflecting higher average levels of borrowings in 2016 following the 2015 share buyback programme.

Slovakia

We announced the wind down of our Slovakian operation in February 2016 following the introduction of new rate cap legislation in that market. Following this difficult decision, we implemented a plan to maximise collections from the receivables book and reduce the scope of operations progressively during the year. Our team in Slovakia has executed these plans successfully and at the end of 2016 had collected around 120% of our original expectations. We had expected to complete the wind down in 2016 through the sale of the remaining portfolio. However, due to the success of our in-house collections team, we took the decision in Q4 2016 to continue to collect through a much reduced field operation and our central debt recovery team during the first half of 2017. We now expect to complete our collections activities and move into the liquidation phase of this process by the end of the first half of 2017.

During 2016, we collected £53 million of receivables through a combination of field collections, central debt recovery activities and debt sales. This compared to a receivables carrying value of £30.8 million after booking an exceptional impairment charge of £10.3 million at the end of 2015. This performance generated net revenue of £22.6 million against which we incurred £17.3 million in expenses, collecting commission and financing costs to collect out the portfolio. Overall, this resulted in profit before tax of £5.3 million. However, we incurred a further £6.9 million in closure costs which were recorded in 2016 and, therefore, the overall result was a loss of £1.6 million. In 2017 we expect to incur further losses to collect out the remaining portfolio and, therefore, the combined closure losses in 2016 and 2017 are expected to be £3 million to £4 million compared to our original guidance of £5 million to £7 million.

Poland and Lithuania

David Parkinson
Country Manager

“We introduced our new product structure to comply with new rate cap regulations.”

Poland and Lithuania delivered profit before tax of £56.2 million in 2016 reflecting a £20.8 million decrease in underlying profit offset partially by a positive FX movement of £8.0 million. This performance reflects the expected impact of new total cost of credit legislation introduced in Poland in March 2016 together with reduced profit from debt sales, the introduction of the new bank tax in Poland and restructuring costs.

Clarification of debt-to-income rules in Lithuania at the beginning of 2016 impacted business volumes significantly and following a detailed review we took the decision to move to a fully digital business in Lithuania operated by IPF Digital. The lower cost distribution of our digital operation means it is more capable of adapting to these requirements and we will therefore focus on serving the market solely through IPF Digital. Consequently, a charge of £3.2 million in respect of estimated exit costs has been included in the 2016 profit and loss account.

Competition from digital and payday lenders in Poland remained intense over the course of 2016. Following the introduction of new total cost of credit legislation, no major competitors departed the market and the on-going trend towards longer-term instalment lending continued. We introduced our new product structure to comply with the new rate cap regulations, but the competitive environment together with the legislative changes impacted credit issued growth which contracted by 2% and customer numbers reduced year-on-year by 11%.

Revenue decreased by 6% reflecting contracting yields driven by the total cost of credit cap and the impact of more customers being offered longer-term and larger loans as part of our mitigation strategy. Our collections performance and credit quality remains good. As expected, impairment as a percentage of revenue increased by 3.0 ppts to 25.9% due to a combination of reduced profit from sales of non-performing receivables and lower revenue arising from the lower total cost of credit cap.

We continued to focus on improving the efficiency of our operation and the cost optimisation programme resulted in underlying savings of £6.9 million and the removal of 260 roles. Other costs were broadly flat year-on-year with the underlying savings being offset by the new bank tax, restructuring costs and investment in our Provident-branded digital platform. The cost-income ratio increased year-on-year by 2.1 ppts to 36.3% due to the combination of higher costs and the contraction of revenue yield.

In line with our strategy, we are focused on optimising our business in Poland and improving the product offering that we make to customers. We also plan to grow our Provident-branded digital offering which had around 8,000 customers at the 2016 year end. As noted in the market review Q&A section of this report, the Ministry of Justice in Poland published a draft bill in December 2016 proposing a further tightening to existing non-interest cost of credit legislation introduced in March 2016. We await an update on this matter and will inform the market in due course as to how our Polish business is likely to be affected by any changes that may be enacted.

	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers (‘000s)	804	**713**	(91)	(11.3)	(11.3)
Credit issued	353.5	**375.1**	21.6	6.1	(2.0)
Average net receivables	287.5	**321.4**	33.9	11.8	3.2
Revenue	267.4	**270.7**	3.3	1.2	(6.4)
Impairment	(61.3)	**(70.0)**	(8.7)	(14.2)	(9.0)
Net revenue	206.1	**200.7**	(5.4)	(2.6)	(10.8)
Finance costs	(15.8)	**(17.8)**	(2.0)	(12.7)	(4.1)
Agents’ commission	(29.8)	**(28.4)**	1.4	4.7	11.8
Other costs	(91.5)	**(98.3)**	(6.8)	(7.4)	0.3
Profit before taxation	69.0	**56.2**	(12.8)	(18.6)	

Czech Republic

Petr Sastinsky
Country Manager

"We plan to broaden our product offer and target cost-efficiencies."

Intense competition in the Czech Republic continued to impact the size of our business and resulted in a reduction in profit before tax of 8% to £13.6 million which reflects a £3.5 million reduction in underlying profit and a £2.4 million positive impact from stronger FX rates.

This challenging landscape resulted in a 15% contraction in credit issued and 18% reduction in customer numbers year-on-year. We introduced a new product offering in Q3 with a broader range of pricing points and product features to appeal more strongly to a wider range of customers and their need for higher value, lower-priced loans. As expected, the new offering has supported an increase in loan values to higher quality customers and we have seen good demand for our monthly product. We are now fine tuning our credit scoring, price points and enhancing our CRM activities to attract new customers and increase our retention rate.

Average net receivables declined by 13% due to continued lower levels of credit issued which resulted in a reduction in revenue of 20%. Credit quality and collections were good, which together with profit on the sale of non-performing receivables, resulted in a significant improvement in impairment as a percentage of revenue to 14.7%.

Our cost optimisation programme resulted in an underlying saving of £1.5 million and a reduction of around 60 roles. Overall other costs were £0.9 million lower than 2015 at CER (actual: £2.3 million higher) which is stated after restructuring costs and initial investment in developing our Provident-branded digital channel for this market.

Key priorities for the business in the Czech Republic in 2017 are to ensure compliance with the new licensing regime as noted in the market review Q&A on pages 8 and 9 of this report and, in particular, manage agent certification requirements. In addition, we plan to further broaden our product offer and distribution channel through the introduction of our Provident-branded digital offering in this market and will continue to target further cost efficiencies.

	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers ('000s)	177	**145**	(32)	(18.1)	(18.1)
Credit issued	100.7	**97.3**	(3.4)	(3.4)	(14.9)
Average net receivables	87.1	**85.7**	(1.4)	(1.6)	(13.4)
Revenue	69.9	**63.2**	(6.7)	(9.6)	(20.3)
Impairment	(17.9)	**(9.3)**	8.6	48.0	54.0
Net revenue	52.0	**53.9**	1.9	3.7	(8.8)
Finance costs	(4.1)	**(4.2)**	(0.1)	(2.4)	10.6
Agents' commission	(7.1)	**(7.7)**	(0.6)	(8.5)	3.8
Other costs	(26.1)	**(28.4)**	(2.3)	(8.8)	3.1
Profit before taxation and exceptional items	14.7	**13.6**	(1.1)	(7.5)	

Southern Europe

Botond Szirmak
Country Manager

"We delivered very strong profit growth in 2016."

Strong credit issued growth, a good collections performance and tight management of costs in our Southern Europe business resulted in a 39% increase in profit in 2016 to £36.9 million. This reflects underlying profit growth of £5.0 million and a £5.3 million positive impact of FX rates.

We continued our strategy of increasing sales of longer-term, larger loans which has supported the delivery of a 17% increase in credit issued. Customer numbers were broadly flat at 630,000. Average net receivables increased by 16% and the yield on the portfolio reduced due to a shift in the mix of products towards longer-term lending, resulting in slower revenue growth of 2%. Credit quality and our collections performance remains very good which together with the benefit of profit from debt sales resulted in impairment as a percentage of revenue at 21.3%.

Other costs reduced by £2.5 million at CER (Actual: increase of £4.5 million) reflecting the results of our cost-optimisation programme which was driven by the introduction of a new sales and service organisational structure in Hungary and Romania. This resulted in around 110 roles being removed during the year. Savings delivered in 2016 totalled £2.6 million although these were offset partially by higher costs associated with employing our agents in Romania to comply with new legislation and restructuring costs. These actions resulted in a 2.6 ppt improvement in the cost-income ratio to 38.3%.

As noted in the market review Q&A on pages 8 and 9 of this report, new creditworthiness assessments for non-banking financial institutions in Romania are expected to impact the rates of growth significantly in this market. As in our other European home credit markets, we will look to attain further cost-efficiencies particularly through the rollout of agent mobile technology.

	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers ('000s)	629	**630**	1	0.2	0.2
Credit issued	227.8	**301.6**	73.8	32.4	16.9
Average net receivables	163.4	**212.2**	48.8	29.9	15.6
Revenue	155.1	**177.4**	22.3	14.4	2.2
Impairment	(35.0)	**(37.8)**	(2.8)	(8.0)	(0.3)
Net revenue	120.1	**139.6**	19.5	16.2	2.7
Finance costs	(9.5)	**(11.8)**	(2.3)	(24.2)	(12.4)
Agents' commission	(20.6)	**(23.0)**	(2.4)	(11.7)	0.4
Other costs	(63.4)	**(67.9)**	(4.5)	(7.1)	3.6
Profit before taxation	26.6	**36.9**	10.3	38.7	

Mexico

Robert Husband
Country Manager

> "We aim to maintain the growth momentum achieved in the second half of 2016 balanced with further improved collections."

Growth momentum and an improving collections performance in the second half of the year contrasted with a first half performance in Mexico which was materially below our original expectations. For the year as a whole, we delivered profit before tax of £11.7 million which reflects a £6.9 million reduction in underlying profit, investment of £2.5 million in geographic expansion and our micro-business loan offering and £0.8 million adverse impact from FX movements.

As stated in our half-year announcement, we implemented a number of operational actions to improve the performance of our business in Mexico. These actions, together with growth flowing through from six new branches opened in the first half of the year and the introduction of a micro-business loan product, delivered progressive improvements in growth and a reduction in impairment during the second half of the year as set out in the following table.

	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Credit issued growth YOY	3%	0%	10%	16%
Impairment % revenue YOY variance	11ppts	4ppts	1ppts	2ppts

We delivered an 8% year-on-year increase in credit issued and grew customer numbers by 3% to 841,000. Average net receivables increased by 11% and revenue increased by 10%. We are focused on balancing growth with maintaining credit quality and strong arrears management activities have resulted in an improving collections performance. Annualised impairment as a percentage of revenue, however, remains at an elevated level and was at 36.5% at the year end. We expect to see improvements in this key measure in the first quarter of 2017.

Other costs increased by £9.5 million at CER (Actual: £7.1 million) due to business growth and a £4.2 million cost increase from geographical expansion and the introduction of our micro-business loans offering. As a result, the cost-income ratio for Mexico increased 1.5 ppts to 39.6%.

Looking ahead, we aim to maintain the growth momentum achieved in the second half of 2016, balanced with further improvement in our collections performance to reduce impairment as a percentage of revenue closer to our target range for Mexico. We continue to see significant growth potential in this market and will invest in further geographical expansion with the opening of a small number of new branches together with continued expansion of our micro-business loan offering.

	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers ('000s)	819	**841**	22	2.7	2.7
Credit issued	224.6	**233.4**	8.8	3.9	7.9
Average net receivables	139.4	**149.7**	10.3	7.4	11.4
Revenue	175.3	**186.5**	11.2	6.4	10.4
Impairment	(56.0)	**(68.0)**	(12.0)	(21.4)	(25.9)
Net revenue	119.3	**118.5**	(0.8)	(0.7)	3.0
Finance costs	(7.1)	**(8.6)**	(1.5)	(21.1)	(24.6)
Agents' commission	(23.5)	**(24.3)**	(0.8)	(3.4)	(7.5)
Other costs	(66.8)	**(73.9)**	(7.1)	(10.6)	(14.8)
Profit before taxation	21.9	**11.7**	(10.2)	(46.6)	

Digital

Rami Ryhanen
General Manager

Mexico
Australia

"Our digital business continued to deliver strong growth."

Our digital business continued to deliver strong growth and with the expected increase in investment in our new markets and head office functional capabilities, we incurred a loss before tax of £9.3 million compared to a loss of £4.2 million in 2015. This reflects good underlying profit growth in our established markets offset by an increased investment in new markets and head office capabilities.

The business delivered customer growth of 45% to 194,000 and increased credit issued by 41% to £150.2 million. The growth in credit issued resulted in an increase in average net receivables of 74% to £86.4 million which, in turn, drove a 51% increase in revenue to £58.1 million. Credit quality is in line with expectations and impairment as a percentage of revenue was 30.1% compared to 28.6% in 2015. This reflects reduced impairment in our established markets driven by higher profits from the sale of non-performing receivables offset by a greater weighting of new market business where impairment levels are higher because they are in their development phase.

We continued to build our new markets and delivered our first loans to customers in Mexico in September 2016. We also invested an additional £3.9 million in head office functional capabilities to deliver future growth.

IPF Digital comprises digital lending operations in eight markets, all at various stages of development. The profitability of these businesses is segmented as follows:

	2015 £M	**2016 £M**	Change £M	Change %
Established markets – Finland and the Baltics	4.0	**12.4**	8.4	210.0
New markets – Poland, Australia, Spain and Mexico	(5.8)	**(15.4)**	(9.6)	(165.5)
Head office costs	(2.4)	**(6.3)**	(3.9)	(162.5)
IPF Digital	(4.2)	**(9.3)**	(5.1)	(121.4)

We have performed a review to better allocate head office costs between the individual businesses which has resulted in more of these costs being borne in the established and new market numbers with a lower residual cost in the IPF Digital head office. We have restated the comparatives to allow a comparison of trends.

IPF Digital	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers (`000s)	134	**194**	60	44.8	44.8
Credit issued	86.7	**150.2**	63.5	73.2	51.1
Average net receivables	43.2	**86.4**	43.2	100.0	74.2
Revenue	31.1	**58.1**	27.0	86.8	63.2
Impairment	(8.9)	**(17.5)**	(8.6)	(96.6)	(71.6)
Net revenue	22.2	**40.6**	18.4	82.9	59.8
Finance costs	(3.1)	**(4.0)**	(0.9)	(29.0)	(11.1)
Other costs	(23.3)	**(45.9)**	(22.6)	(97.0)	(73.9)
Loss before taxation	(4.2)	**(9.3)**	(5.1)	(121.4)	

Established markets

Our established markets delivered good growth, lower impairment as a percentage of revenue and an increase in reported profit before tax to £12.4 million from £4.0 million in 2015.

Customer numbers grew 12% to 137,000 and we delivered credit issued growth of 11%. This increased average net receivables by 52% to £70.9 million. Revenue growth was lower at 28% principally reflecting tighter price caps in Estonia and Lithuania.

Impairment as a percentage of revenue improved by 7ppts to 16.7% which reflects a good underlying credit performance together with the benefit of a £4.4 million profit generated on the sale of non-performing receivables in Finland and Lithuania. These markets have now moved onto forward flow agreements and therefore this benefit will not recur and impairment as a percentage of revenue is expected to return to normalised levels in 2017.

Costs increased by 28% to £22.1 million which was driven principally by investment to generate growth and strengthening our people capabilities to deliver the right customer service and compliance in this larger business. Cost leverage resulted in the cost-income ratio improving by around 3ppts.

New markets

Our new markets grew rapidly in 2016 driven principally by strong performances in Poland and Spain. This growth was supported by significant investment in building the businesses through developing functional capabilities, investing in customer acquisition activities and managing impairment as we developed our credit scorecards. As a result our profit and loss investment in these markets increased to £15.4 million.

Our new digital businesses in Poland, Australia, Spain and Mexico are growing strongly and we now serve 57,000 customers in these markets. We increased credit issued by 370% to £41.8 million which resulted in a similar rate of growth in revenue. Impairment as a percentage of revenue at 78.6% was 4.7 ppts lower than 2015 reflecting the growth in lending to new customers and is in line with our expectations for the markets at their early stage of development.

Head office

We continued to invest in our IPF Digital technology platform and head office functional capabilities including credit decisioning, finance, marketing and product to ensure we have the right resource in place to execute our expansion plan in a well-controlled and effective manner.

There are significant growth opportunities for our digital business. The growth and good credit loss trends in our new markets in 2016 have increased our confidence that a slightly higher investment to deliver accelerated credit growth will bring forward the division's breakeven point. As a consequence, we plan to invest around £8 million to £10 million in 2017 and we expect to deliver IPF Digital's maiden profit in 2018.

Established markets	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers ('000s)	122	**137**	15	12.3	12.3
Credit issued	78.7	**108.4**	29.7	37.7	19.8
Average net receivables	40.4	**70.9**	30.5	75.5	52.5
Revenue	28.7	**45.5**	16.8	58.5	38.3
Impairment	(6.9)	**(7.6)**	(0.7)	(10.1)	5.0
Net revenue	21.8	**37.9**	16.1	73.9	52.2
Finance costs	(2.9)	**(3.4)**	(0.5)	(17.2)	–
Other costs	(14.9)	**(22.1)**	(7.2)	(48.3)	(28.5)
Profit before taxation	4.0	**12.4**	8.4	210.0	

New markets	2015 £M	**2016 £M**	Change £M	Change %	Change at CER %
Customer numbers ('000s)	12	**57**	45	375.0	375.0
Credit issued	8.0	**41.8**	33.8	422.5	369.7
Average net receivables	2.8	**15.5**	12.7	453.6	400.0
Revenue	2.4	**12.6**	10.2	425.0	366.7
Impairment	(2.0)	**(9.9)**	(7.9)	(395.0)	(350.0)
Net revenue	0.4	**2.7**	2.3	575.0	440.0
Finance costs	(0.2)	**(0.6)**	(0.4)	(200.0)	(200.0)
Other costs	(6.0)	**(17.5)**	(11.5)	(191.7)	(165.2)
Loss before taxation	(5.8)	**(15.4)**	(9.6)	(165.5)	

A strong financial profile

> "We aim to run and develop high-return businesses to provide good returns to our shareholders and maintain a strong financial profile."
>
> **Justin Lockwood**
> Chief Financial Officer

For operational review
see page 24-31

Financial strategy

We aim to run and develop high-return businesses to provide good returns to our shareholders and maintain a strong financial profile. We have a good track record of doing this, even during periods of macroeconomic and financial market volatility, and periods of competitive and regulatory change for our business.

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

We have a strong balance sheet, funding position and robust financial risk management. We currently 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 have always operated within this range at a Group level. Our debt funding strategy provides a resilient funding position for the existing business and for future growth, through a diversified debt portfolio of bond and bank facilities including significant long-term funding. By maintaining our strong financial profile, we are able to operate with significant headroom on the financial covenants in our debt facilities. Our strong balance sheet and funding position also give us significant resilience to counter external factors including taxation challenges and regulatory turbulence.

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.

As our business strategy has evolved to include home credit and digital businesses at different stages of development, we have evolved our financial strategy to better measure the returns on our businesses and for the overall Group. 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 opposite shows the ROA for our European home credit, IPF Digital and Mexico home credit businesses, and for the Group as a whole. ROA is measured as profit before exceptional items and interest, after tax, divided by the average receivables during the period.

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

Our 2016 Group profit before tax reduced in line with expectations to £92.6 million, and the return metrics reflect this profile.

ROA for European home credit reduced modestly from 18.2% in 2015 to 15.8% in 2016, due to the factors set out in the operating review for those markets. The ROA for Mexico home credit reduced from 15.2% in 2015 to 9.8% in 2016 reflecting higher impairment, and investment in expansion and micro-business lending. IPF Digital's negative return increased from 1.9% in 2015 to 4.4% in 2016 reflecting accelerating investment. Group ROA reduced from 15.1% in 2015 to 11.6% in 2016.

Return on assets (ROA)

	2015 HC Europe	2015 HC Mexico	2015 Digital	2015 Group	**2016 HC Europe**	**2016 HC Mexico**	**2016 Digital**	**2016 Group**
Profit before tax[1]	113.0	21.9	(4.2)	116.1	**105.1**	**11.7**	**(9.3)**	**92.6**
Interest	31.7	7.1	3.1	41.6	**34.4**	**8.6**	**4.0**	**47.1**
Adjusted PBIT	144.7	29.0	(1.1)	157.7	**139.5**	**20.3**	**(5.3)**	**139.7**
Taxation[2]	(38.9)	(7.8)	0.3	(42.4)	**(39.1)**	**(5.7)**	**1.5**	**(39.1)**
PBIAT	105.8	21.2	(0.8)	115.3	**100.4**	**14.6**	**(3.8)**	**100.6**
Average receivables	581.4	139.4	43.2	764.0	**634.7**	**149.7**	**86.4**	**870.8**
Return on assets	18.2%	15.2%	(1.9%)	15.1%	**15.8%**	**9.8%**	**(4.4%)**	**11.6%**

1. Adjusted for any exceptional items.
2. Taxation is applied at the Group's effective rate before Slovakian losses.

Return on equity

Return on equity (ROE) for the Group is measured as profit after tax, prior to any exceptional items, divided by average equity.

ROE reduced from 23.3% in 2015 to 17.7% in 2016 reflecting the general ROA profile, and a higher level of equity within the Group was driven partially by the foreign exchange impact on reserves that is explained later in this report.

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; whilst maintaining our strong financial profile.

The table opposite 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 £66.9 million in 2016 increasing from £62.5 million in 2015 due to exceptional items recorded in that year. £55.0 million of this was used to invest in receivables growth (at 40% equity funding for receivables).

Capital generation

	2015 £M	**2016 £M**
Profit before tax	100.2	**92.6**
Tax charge	(37.7)	**(25.7)**
Profit after tax	62.5	**66.9**
Receivables growth funded by equity (40%)	(16.8)	**(55.0)**
Capital generated	45.7	**11.9**
Home credit Europe	73.6	**51.1**
Home credit Mexico	7.7	**6.2**
IPF Digital	(26.4)	**(33.9)**
Other	(9.1)	**(11.4)**
Dividends declared	(28.6)	**(27.4)**
Share buyback	(50.2)	**-**
Capital consumed	(33.1)	**(15.5)**

Earnings per share

Earnings per share was 30.2 pence in 2016 compared with 37.1 pence in 2015 reflecting the reduction in profitability.

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 (2015: 12.4 pence per share). The full year dividend of 12.4 pence per share represents a total payment equivalent to approximately 41% of post-tax earnings for the full year 2016 which is above our target pay-out rate of 35%. The final dividend will be paid on 12 May 2017 to shareholders on the register at the close of business on 18 April 2017. The shares will be marked ex-dividend on 13 April 2017.

Financial profile

We aim to maintain a strong financial profile with a robust balance sheet and funding position. The target equity to receivables capital ratio of 40% balances having sufficient capital to withstand external shocks including macroeconomic, regulatory, and tax factors, whilst 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 2016, the equity to receivables ratio was 45.7 % compared with the target level of 40%, meaning equity capital £54 million above the target level. Gearing was 1.5x at December 2016 (1.7x December 2015), well within the covenant level of 3.75x maximum in our debt facilities.

Our target range of impairment to revenue of 25% to 30% means that we maintain credit quality throughout an economic cycle, and the Group has always operated within this range since the demerger of IPF in 2007, even during the global financial crisis of 2009. Our shorter-term lending provides significant flexibility to adjust credit parameters as macroeconomic conditions change. Impairment at 26.8% in 2016 was towards the bottom end of the target range. The average period of receivables outstanding at December 2016 was 7.8 months (2015: 6.3 months) with 86.0% of year-end receivables due within one year (2015:89.6%). Closing receivables in 2016 were £939.9 million, which is £44.5 million (5%) higher than 2015 in constant currency terms reflecting the growth in the business.

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

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

Treasury risk management and funding

Our Board approved policies 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 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 expressly approved by the Board. In addition to these policies, our operational procedures and controls ensure that funds are available in the right currency at the right time to serve our customers throughout the Group.

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

Our debt funding strategy has been successful over a number of years, and we have a consistent record of accessing debt markets throughout the economic cycle. Our debt funding position is summarised in the table below. At December 2016, we had total debt facilities of £775.2 million, with total borrowings of £622.8 million, giving headroom of £152.4 million. Drawings on these bank facilities have been used for total Polish tax payments in respect of the tax years 2008 and 2009 of £38 million in January 2017 and maybe partly utilised for further potential payments to the Polish tax authority in respect of 2010 and other years to the extent that the tax authority opens further audits in future.

62% of our facilities mature in 2020/21, with only 7% maturing in 2017. About 73% of the total debt facilities come from the bond market, and about 27% from the bank market. The vast majority of bank facilities are extended on a rolling basis, annually; ensuring that the overall level remains broadly consistent.

	Maturity	£M
Bonds		
Euro	April 2021	341.7
Euro	May 2018	34.2
Sterling	May 2020	101.5
Czech	November 2018	7.9
Czech	December 2018	6.3
Romanian	December 2018	12.3
Romanian	December 2019	15.0
Hungarian	January 2018	11.0
Polish	June 2020	38.8
Total bonds		**568.7**
Bank facilities	2017-2019	206.5
Total debt facilities		**775.2**
Total borrowings		**622.8**
Headroom		152.4

Although the Brexit vote has created some uncertainty in financial markets, 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 €400 million (£341.7 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. We will continue to monitor the development of Brexit negotiations, including the impact on financial markets and macroeconomic conditions, and react as appropriate.

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

Covenant compliance		2015	**2016**
Gearing*	Max 3.75	1.7	**1.5**
Interest cover	Min 2 times	3.9	**3.2**
Net worth*	Min £250 million	318.7	**427.9**
Receivables: borrowings	Min 1.1:1	1.4	**1.5**

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

Foreign exchange input on reserves

The majority of the Group's net assets are denominated in our operating currencies and, therefore, the sterling value fluctuates with changes in currency exchange rates. In accordance with accounting standards, we have restated the opening foreign currency net assets at the year-end exchange rate and this resulted in a £65.1 million foreign exchange movement, which has been credited to the foreign exchange reserve.

Taxation

The taxation charge for the year on statutory pre-tax profit was £25.7 million (2015: £37.7 million) which equates to an effective rate of 27.8% (2015: 37.6%). The 2015 tax charge included the impact of the Slovakian deferred tax write-off. In 2015, the underlying tax charge was £31.2 million which represented an effective tax rate of 26.9%. The effective tax rate for 2017 is expected to be c.30%.

Our home credit company in Poland, Provident Polska, appealed the decisions received from the Polish Tax Chamber (the upper tier of the Polish tax authority) in early 2017 with respect to its 2008 and 2009 financial years. The decisions for both years are identical and involve a transfer pricing challenge relating to an intra-group arrangement with a UK entity together with a challenge to the timing of taxation of home collection fee revenues. As stated in our announcement at the time of the 2008 decision we strongly disagree with the interpretation of the tax authority and will defend our position robustly in court. In order to make the appeals, we paid the amounts assessed which total £38 million, comprising tax and associated interest. The payment of this sum is not a reflection of our view on the merits of the case and accordingly it will be recognised as a non-current financial asset in our group accounts. As we believe our case to be very strong, no provision will be recognised against this asset and there will be no charge to the income statement as a result of this decision. The 2010 financial year is currently being audited by the tax authorities in Poland and a decision is expected in the coming months. In the event that the decision follows the same reasoning as the decisions for 2008 and 2009 a further c. £19 million would become payable. All subsequent financial years remain open to future audit.

Going concern

The Board has reviewed the budget for the year to 31 December 2017 and the forecasts for the two years to 31 December 2019 which include projected profits, cash flows, borrowings, headroom against debt facilities, and funding requirement. The Group's total debt facilities including a range of bonds and bank facilities, combined with a successful track record of accessing debt funding markets over a long period (including periods of adverse macro-economic 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 38-43, the Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason the Board has adopted the going concern basis in preparing this Annual Report.

Justin Lockwood
Chief Financial Officer

Managing
our risks

The principal risks to our strategy are identified, evaluated and managed at Group level in accordance with our operational governance and oversight structure*. This structure is replicated in each of our home credit markets and in IPF Digital. The aggregation of a bottom-up assessment of principal risks by our business unit teams is then validated by a top-down assessment of those risks by their Group-level owners.

* See www.ipfin.co.uk for our governance and oversight structure.

For our strategy see pages 10-11

For our business model see pages 12-13

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

The Board

Determines the nature and extent of the principal risks it is willing to take in achieving our strategic objectives (as described on page 10) and target business model (as described on page 12), taking account also the environment in which the Group operates. The Board approves the principal risks as described in a Group Schedule of Key Risks on a six-monthly basis and approves risk appetite annually.

Management Team

Responsible for day-to-day risk management and internal control systems. Risk identification, evaluation and management processes form an integral part of business processes, and they have developed in-line with the development of specific risks – particularly in relation to the changing regulatory environment. Control activities are identified for all risks in the Group Schedule of Key Risks.

Risk Advisory Group

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

Audit and Risk Committee

On behalf of the Board, the Committee reviews the Group's processes for the management of the principal risks and its systems of internal control. The Committee receives and challenges the Group Schedule of Key Risks together with regular reports and presentations on the effectiveness of the control environment. It has confirmed the adequacy of the actions being taken by management to avoid potential breaches of risk appetite thresholds. The Committee undertakes a robust assessment of the Group Schedule of Key Risks on a six-monthly basis. See page 52 to 53 for Committee membership and remit.

Three Assurance Lines of Defence

1 **First line:** Business-level management identify, assess and control risks principally at markets level and also within major projects and change initiatives.

2 **Second line:** Group-level management risk owners provide oversight on the effectiveness of the risk management and internal control systems.

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

The directors have undertaken a robust, systematic assessment of the Group's principal risks including those that threaten its business model, future performance, solvency or liquidity. These have been considered within the time frame of three years which aligns with our viability statement on page 43. 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. Our risk appetite remained broadly unchanged in 2016.

During the year, we continued to face a challenging external environment, particularly from regulation and competition. Internally, our operational governance framework and risk management processes are continually reviewed to ensure that where areas of improvement are identified, a plan of action is put in place and can become a key focus for the Board. The effectiveness of operating these processes is monitored by the Audit and Risk Committee on behalf of the Board.

Risk category	Definition	Risks	Description
Market conditions	The risk that we cannot identify, respond to, comply with or take advantage of external market conditions.	Regulatory	
		• Legal compliance*	• Compliance with existing laws and regulations
		• Future legal and regulatory development*	• Anticipating and responding to changes to laws and regulations and their interpretation
		Competition and product proposition	
		• Competition*	• Responding to changes in market conditions
		• Product proposition*	• Meeting customer requirements
		Funding, market and counterparty	
		• Funding*	• Funding availability to meet business needs
		• Interest rate and currency	• Market volatility impacting performance and asset values
		• Counterparty	• Loss of banking partner
		• Taxation*	• Changes to, or interpretation of, tax legislation
		• World economic environment*	• Adapting to economic conditions
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.	• Reputation*	• Reputational damage
		• Customer service	• 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.	• Credit*	• Customers fail to repay
		• Safety*	• Harm to our agents/employees
		• People*	• Calibre of people
		• Business continuity and information security*	• Recoverability and security of systems and processes
		• Financial and performance reporting	• Failure of financial reporting systems
		• Technology	• Maintenance of effective technology
		• Fraud	• 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.	• Change management*	• Delivery of strategic initiatives
		• Brand	• Strength of our customer brands

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

Principal risks and uncertainties continued

As at the year end, the Board considered that there are 14 principal risks which require ongoing focus (noted with asterisks in the table on page 37).

Risk	Relevance to strategy	Mitigation	Commentary
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, or 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.	1 2 3 Changes in regulation, differences in interpretation or clarification/enforcement of laws not previously enforced by courts and other bodies can lead to challenge of our products/practices. We must keep up to speed with legal and regulatory developments to ensure we maintain compliance, remain competitive and provide value for our customers. **Likelihood** The frequency of legal and regulatory change and the likelihood of challenge vary by market. In 2016, notable changes occurred in Poland, Lithuania, the Czech Republic and Romania.	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. Strong relationships are maintained with regulators and other stakeholders. Co-ordinated legal and public affairs teams, at a Group level and in each market, monitor political, legislative and regulatory developments.	▼ **Lead responsibility: Chief Executive Officer** See market review Q&A, Chief Executive Officer's review and operational review for details of key regulatory changes in 2016 A number of legislative and regulatory changes continue to be proposed and debated, particularly in Europe. As stated elsewhere in this report, these have had a significant impact on our businesses in Slovakia, Poland and Lithuania in particular. The business is adapting, where possible, to changes announced in 2016 but the scale of the risk remains substantial and we must continue to be vigilant and flexible in our response. Further enhancements to our approach to governing this risk were implemented during 2016, including increased level of monitoring of regulatory matters, strengthened anticipation and engagement capabilities in-market and renewed association and sector reputation strategy.
Change management We suffer losses or fail to optimise profitable growth due to a failure to manage change in an effective manner. **Objective** We aim to effectively manage the design, delivery and benefits realisation of major change initiatives and deliver according to requirements, budgets and timescales.	1 2 3 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. **Likelihood** Our change programme is complex covering numerous markets. Recent changes to the delivery structure have been designed to minimise the likelihood of programme-wide issues.	Executive Director and Country Manager level prioritisation of key initiatives. Standard project management methodology principles defined. Governance structure in place to oversee ongoing change at Group and market levels.	◀▶ **Lead responsibility: Chief Executive Officer** We initiated a change programme encompassing a broader technological remit and we are preparing for a rollout of a mobile application to agents in 2017. A revised IT strategy was launched to ensure we can respond effectively to changing regulatory, competitor and customer behaviour dynamics.

Risk	Relevance to strategy	Mitigation	Commentary
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 depth of personnel to ensure we can meet our growth objectives.	1 2 3 Our strategy emphasises segmentation of our operations into 'Growth' and 'Returns' focused businesses to reflect the fact that they are at different stages of maturity. In order to achieve our goals, we must continue to attract, engage, retain and reward the right people. **Likelihood** We have developed significant strength-in-depth of talent across the Group and there is a strong history of talent moving between markets that reduces the likelihood of key vacancies.	Strategic people review processes (People and Organisational Planning) operate throughout the Group. Group-wide personal development review process and continuous development through targeted leadership programmes. Periodic employee and agent engagement surveys and improvement plans.	◀▶ **Lead responsibility: Chief Executive Officer** Our people strategy focuses on creating a culture of high engagement, identifying and nurturing talent and empowering people. We made significant changes to field sales and services organisational structures during 2016. This was achieved without any significant impact on employee and agent stability and we believe the medium-term impact will increase the skills, engagement and stability of our people. In 2016, our agents in Romania were made employees to comply with new legislation.
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 growth.	1 2 3 In an environment of increasing competition and broadening customer choice, ensuring our product meets customers' needs is critical to delivering growth. **Likelihood** Competition varies by market. In 2016, the impact of competitive activity, both from home credit and digital lenders, was particularly notable in Poland, the Czech Republic and Romania.	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 manage product change and introduce new products.	▼ **Lead responsibility: Chief Executive Officer** Competition continues to increase. The growth of IPF Digital continues to diversify our portfolio. During 2016 we opened new digital businesses in Spain and Mexico, and IPF Digital is growing strongly We launched a number of product offerings in 2016 within our home credit markets giving customers more choice and to comply with new regulations.

For more on our strategy see pages 10-11

1 Growth focus – IPF Digital	▲ Risk environment improving
2 Growth focus – Mexico home credit	◀▶ Risk environment remains stable
3 Returns focus – European home credit	▼ Risk environment worsening

Risk	Relevance to strategy	Mitigation	Commentary
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 or theft of sensitive information **Objective** We aim to maintain adequate arrangements and controls that reduce the threat of service disruption and the risk of data loss to as low as is reasonably practicable.	1 2 3 Globally, we have 2.5 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.	Executive Director and Country Manager level prioritisation of key initiatives. Standard project management methodology principles defined. Governance structure in place to oversee ongoing change at Group and market levels.	◀▶ **Lead responsibility: Chief Executive Officer** We continue to enhance our systems and processes to ensure data is as secure as practicable and that any disruption to the business is minimised. Information security capability was further enhanced in 2016 including implementation of technical solutions to prevent and detect weaknesses. A disaster recovery assessment and testing programme was also undertaken in the year. Further enhancements to our protection are planned for 2017.
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 that will enable the Group to achieve its strategic aims.	1 2 3 Our reputation can have an impact on both customer sentiment and the engagement of key stakeholders, impacting our ability to grow. **Likelihood** We maintain strong relationships with stakeholders across the Group in order to minimise the likelihood of an event leading to unanticipated reputational impact.	Group Reputation and Regulation Committee. Clearly defined corporate values and ethical standards which are communicated throughout the organisation. Regular monitoring of reputation indicators.	◀▶ **Lead responsibility: Chief Executive Officer** Our businesses continue to achieve awards for ethical and effective operations. In light of increased regulatory challenges and potential legislative changes we face, we communicated our position to investors and other key stakeholders.

1 Growth focus – IPF Digital	▲ Risk environment improving
2 Growth focus – Mexico home credit	◀▶ Risk environment remains stable
3 Returns focus – European home credit	▼ Risk environment worsening

Risk	Relevance to strategy	Mitigation	Commentary
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.	1 2 3 Changes in economic conditions have a direct impact on our customers' ability to make repayments. **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 model. The results of the Brexit vote and US presidential election have created global market uncertainty and there may be longer-term impacts on global economic growth.	Treasury and credit committees review economic indicators. Daily 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 stable macroeconomic conditions in our markets in 2016. GDP forecasts for 2017 are for a continuation of recent moderate growth in our European markets but for a slowdown in Mexico. We continue to monitor the impact of political developments including Brexit and the change of US President on financial markets and macroeconomic conditions.
Safety The risk of personal accident to, or assault on, our agents or employees. **Objective** We aim to maintain adequate arrangements that reduce the risks to as low as is reasonably practicable.	2 3 A significant element of our business model involves our agents and employees interacting with our customers in their homes or travelling to numerous locations daily. Their safety is paramount to us. **Likelihood** The likelihood of an individual incident depends on many factors, including the local environment. We strive to ensure that our agents and employees can carry out their work without risk of harm.	Group and market committees and annual safety survey. Bi-annual risk mapping for each agency including mitigation planning and field safety training. Annual self-certification of safety compliance by managers. Quarterly branch safety meetings. Role-specific training and competence matrix. Safety management systems based on internationally recognised standards.	◀▶ **Lead responsibility: Chief Executive Officer** We continued to make progress in our safety management systems and maintained our OHSAS certification in all established home credit businesses. Safety continues to be a significant area of focus for the Group.

Risk	Relevance to strategy	Mitigation	Commentary
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.	1 2 3 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 and this was seen in 2016 with the commencement of a transfer pricing audit in Slovakia.	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 continued to ensure our interpretation of taxation legislation is defendable through maintaining a strong governance framework, ensuring each mature market and the Group employs tax professionals, and taking external advice where relevant. We have ongoing tax audits in Poland, Mexico and Slovakia. In early 2017 we received an adverse decision from the Polish tax authority in respect of 2008 and 2009 on two matters that had been accepted as correct during tax audits of previous years. We have lodged appeals against the decisions and were required to pay the assessments totalling c. £38 million. In addition, possible further payments could be required in respect of future years that are still open to audit, including 2010 where an audit has already been opened, and a decision is awaited.
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.	1 2 3 With the expansion in IPF Digital and Mexican home credit businesses, it is important that we keep control of credit losses in order to achieve our intended returns. For the European home credit businesses we need to be certain that we are writing profitable business to maximise return. **Likelihood** The control environment in place means that we will see issues quickly and the systems in place mean that we can change credit settings quickly, and therefore the likelihood of suffering large losses is low.	Weekly credit reporting on the quality of business at time of issue as well as 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 senior team. When a new change is introduced, the credit systems allow for a testing approach that gives direct comparison of the current 'champion' regime against the new 'challenger'.	◀▶ **Lead responsibility: Chief Financial Officer** For IPF Digital, the risk environment is generally stable with low loss rates. For our Mexico home credit business, we saw an increase of loss rates in the second half of 2016 due largely to an operational factor and this is now improved. For our European home credit markets, the credit risk background is stable.

Risk	Relevance to strategy	Mitigation	Commentary
Funding, market and counterparty	1 2 3		◀▶
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 limit the impact of interest rate and currency movements and exposure to financial counterparties.	Funding at appropriate cost and on appropriate terms, and management of financial market risk, is necessary for the future growth of the business. **Likelihood** Board approved policies require us to maintain a resilient funding position with good headroom on undrawn bank facilities; appropriate hedging of market risk, and appropriate limits to counterparty risk.	Adherence to Board approved policies monitored through Treasury Committee, Finance Leadership team and regular Board reporting. Funding plans presented as part of budget planning. Strong relationships maintained with debt providers.	**Lead responsibility: Chief Financial Officer** Our business has a strong funding position with good headroom on bank facilities and long-term funding in place. Hedging of market risk and limits on counterparty risk in line with policies.

1 Growth focus – IPF Digital	▲ Risk environment improving
2 Growth focus – Mexico home credit	◀▶ Risk environment remains stable
3 Returns focus – European home credit	▼ Risk environment worsening

Viability statement

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

The Group undertakes an annual business planning and budgeting process that includes an update to strategic plans together with an assessment of expected performance, cash flows, funding requirements and covenant compliance. The plan is stress tested in a variety of downside scenarios that reflect the crystallisation of the Group's principal risks with particular reference to regulatory, taxation and funding, market and counterparty risks as outlined on pages 38, 42 and 43, respectively and the consequent impact on future performance, funding requirements and covenant compliance. Consideration has also been given to the availability of mitigating actions that could be taken to reduce the impact of the identified risks.

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

Approved by the Board.

Gerard Ryan
Chief Executive Officer
1 March 2017

"The Board and its committees operated against a backdrop of challenging regulatory change."

Dan O'Connor
Chairman

For more information on our compliance with the UK Corporate Governance Code
see pages 59-62

Dear shareholder

During 2016, the Board and its committees operated against a backdrop of challenging regulatory change, intensified competition and a market characterised by changing customer behaviour where digital delivery became increasingly important to consumers. All of these featured heavily in Board discussions and we received regular updates on each, often first hand, from our Country Managers and their teams in those markets. In particular, David Parkinson, Country Manager for Poland and Lithuania, and Robert Husband, Country Manager for Mexico, were invited several times during 2016 to give direct reports to the Board: David to discuss plans and progress on addressing the regulatory changes in Poland, and Robert in respect of the performance issues and steps to remedy these in Mexico. These two matters were among our top priorities in 2016. Effective Board oversight has been crucial in supporting management navigate an effective path through these challenges.

Regulatory changes in other markets also led to difficult Board decisions. This was particularly the case at the start of the year when we decided to close our business in Slovakia. The Board oversaw the impact of this both financially and on the people affected. This has been handled professionally by all those involved and the wind down of the business has progressed ahead of expectations.

The Board was supported in its focus on regulatory challenges by Richard Moat and the Audit and Risk Committee, who actively monitored and challenged management's response to the regulatory issues they faced.

The Board also ensured that our evolved strategy was embedded in the business. It was clear to us, however, that the effective use of technology would be the key enabler to supporting this strategy and delivering our long-term success. As a consequence, our Transformation for Growth Committee, under the stewardship of John Mangelaars, revised its remit to focus on technology as a whole and become the Technology Committee. This led to a revised strategic approach and a focus on increasing technological capabilities to enable the Group to move to being a data-led organisation where technology can create competitive advantage.

In the context of our strategy, Cathryn Riley and the Remuneration Committee worked hard to review our remuneration arrangements to ensure that they incentivise and support delivery of our strategy in the right way. Cathryn and the Committee have consulted widely with major shareholders in developing our new Directors' Remuneration Policy and this will be presented for approval at our 2017 AGM.

The Nomination Committee, of which I am the Chairman, focused during 2016 on the search for a new Chief Financial Officer and a new Senior Independent Director, recognising that Tony Hales will have served almost 10 years as a director by the time of our 2017 AGM. In February 2017, I was delighted to welcome Justin Lockwood to the Board as our new Chief Financial Officer. Justin, our previous Head of Finance and Interim Chief Financial Officer, brings to the Board a wealth of financial management experience in the markets in which we operate. The search for a new Senior Independent Director will continue in 2017. In the meantime, the Board asked Tony to continue as a director until our AGM in 2018 and I am pleased to say that he agreed.

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

Dan O'Connor
Chairman

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

International Personal Finance plc applied the main principles and complied with the provisions set out in the Code, which was published by the Financial Reporting Council ('FRC') in September 2014, and which applied throughout the financial year ended 31 December 2016. The Code is available on the FRC's website: www.frc.org.uk. We also have a secondary listing on the Warsaw Stock Exchange but consider reporting in line with the Code as our primary obligation in terms of this year's Annual Report and Financial Statements.

Corporate governance at a glance

Key progress in 2016

Board

- Effective oversight and support monitoring the transition to the new regulatory regime introduced in Poland in March 2016.
- Board oversight and management challenge supported improved performance in Mexico in the second half of the year following a performance materially below our expectations in the first half.
- Evolved strategy embedded in the business.

➔ See pages 48-49

Nomination Committee

- Search for new Senior Independent Director commenced.
- Undertook search for a new executive director (Chief Financial Officer). An appointment was made in February 2017.

➔ See pages 50-51

Audit and Risk Committee

- An early approach to the implementation of IFRS 9 was agreed.
- The transformation of IPF Digital's financial control environment was monitored closely.
- Monitored developments relating to the 2008 and 2009 Polish tax audits.

➔ See pages 52-56

Technology Committee

- Remit refocused and a new technology strategy approved.
- Test of agent mobile technology in the Czech Republic, Hungary and Poland.

➔ See pages 57-58

Remuneration Committee

- 2017 Directors' Remuneration Policy designed to support our strategic priorities.
- Extensive engagement with shareholders during the remuneration consultation process.

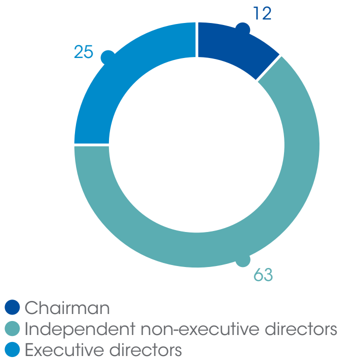
➔ See pages 71-93

Attendance at meetings of the Board and Board committees in 2016

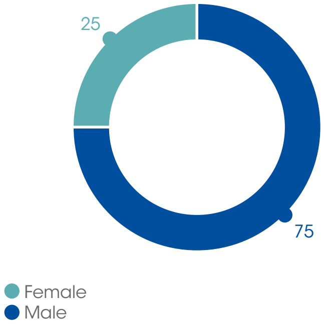
Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Technology Committee
Jayne Almond[1]	7 out of 7	6 out of 6		5 out of 6	
Tony Hales	7 out of 7	6 out of 6	4 out of 4	6 out of 6	
John Mangelaars	7 out of 7		4 out of 4		4 out of 4
Richard Moat[1,2]	7 out of 7	6 out of 6		5 out of 6	3 out of 4
Dan O'Connor	7 out of 7		4 out of 4		
Cathryn Riley	7 out of 7		4 out of 4	6 out of 6	4 out of 4
Gerard Ryan	7 out of 7		4 out of 4		
Former Director					
David Broadbent[3]	2 out of 2				0 out of 1
Adrian Gardner[4]	5 out of 5				

1. Jayne Almond and Richard Moat did not attend one ad hoc Remuneration Committee meeting as this conflicted with existing business arrangements.
2. Richard Moat did not attend one ad hoc Technology Committee meeting as this conflicted with existing business arrangements.
3. David Broadbent resigned from the Board on 23 February 2016 and was a member of the Executive Committee and the Technology Committee until that date. He did not attend one Technology Committee meeting as this conflicted with an existing business arrangement.
4. Adrian Gardner resigned from the Board on 21 September 2016 and was a member of the Executive Committee and the Disclosure Committee until 30 September 2016.

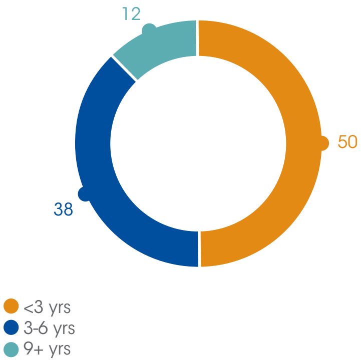
Board composition (%)*



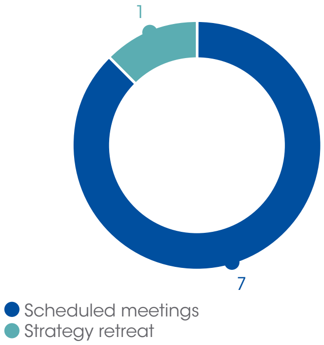
Board diversity (%)*



Board tenure (%)*



Board meetings 2016



* As at 1 March 2017

1. Dan O'Connor

Chairman, age 57 Ⓝ

Length of service: 2 years and 2 months

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

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

2. Gerard Ryan

Chief Executive Officer, age 52 Ⓓ Ⓔ Ⓝ

Length of service: 5 years and 1 month

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

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

3. Justin Lockwood

Chief Financial Officer, age 47 Ⓓ Ⓔ

Length of service: appointed to the Board on 23 February 2017

Appointments and qualifications: Justin was the Company's Group Head of Finance for seven years before being appointed as a 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.

4. Tony Hales CBE

Senior independent non-executive director, age 68 Ⓐ Ⓝ Ⓡ

Length of service: 9 years and 7 months

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

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

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Committee membership key

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

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8

5. Jayne Almond

Independent non-executive director, age 59 Ⓐ Ⓡ

Length of service: 1 year and 8 months

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

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

6. Richard Moat

Independent non-executive director, age 62 Ⓐ Ⓡ Ⓣ

Length of service: 4 years and 8 months

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

Key strengths and contributions: Richard has more than 20 years' international telecoms experience in senior management roles and provides financial and operational expertise along with international experience.

7. John Mangelaars

Independent non-executive director, age 52 Ⓝ Ⓣ

Length of service: 1 year and 7 months

Appointments and qualifications: John worked previously 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 with a Bachelor in Information and Communication Technology (B ICT) and is currently the CEO of online travel agency Travix International.

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

8. Cathryn Riley

Independent non-executive director, age 54 Ⓝ Ⓡ Ⓣ

Length of service: 3 years

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

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

“Regular themes for the Board were strategy, resources, performance, governance and in particular risk.”

Dan O’Connor
Chairman

For more about our Board members
see pages 46-47

Dear shareholder

During the year regular themes for the Board were strategy, resources, performance, governance and in particular risk. The Board reviewed strategy at its strategy retreat and endorsed the twin focus of driving value from the European home credit business while growing our Mexico home credit and IPF Digital businesses, with both elements underpinned by an advancing technology capability. The Board regularly reviewed the financial resources of the Group and also held in-depth reviews of management capability and succession planning. Performance at Group and Country level is a key agenda item at all Board meetings with country and functional heads presenting and being questioned by the Board on their particular areas of responsibility. The Board seeks to adopt best practice on governance. In particular as a financial entity, we are very conscious of operating in an area of high official and public scrutiny, where the highest standards of governance underpinned by process and culture are an absolute necessity. The changing risk map has had high priority not least as regulation has impacted on the business significantly. A comprehensive insight into matters considered by the Board in 2016 can be found on page 49.

Meetings

The Board held seven scheduled meetings in 2016 and one strategy retreat.

Board members

Dan O’Connor – Chairman
Gerard Ryan – Executive director and Chief Executive Officer
Tony Hales – Senior independent non-executive director
Jayne Almond – Independent non-executive director
Justin Lockwood (from 23 February 2017) – Executive director and Chief Financial Officer
John Mangelaars – Independent non-executive director
Richard Moat – Independent non-executive director
Cathryn Riley – Independent non-executive director

Former Board members

David Broadbent (until 23 February 2016) – Former executive director and Chief Commercial Officer
Adrian Gardner (until 30 September 2016) – Former executive director and Chief Financial Officer

2016 objectives

- Monitor implementation of new product proposition in Poland in response to new pricing restrictions introduced in March 2016.
- Oversee run-off of agent-delivered home credit operations in Slovakia.
- Review investment opportunities to achieve top-line growth in IPF Digital.
- Continued oversight of regulatory and competition risk.
- Oversee growth plans for home credit business in Mexico, Romania and Bulgaria.
- Focus on efficiency through:
  - use of technology to increase customer experience and reduce cost base; and
  - strengthening sales and service organisational structure.
- Continued focus on leadership and development.

2016 progress

- Effective oversight and support monitoring the transition to the new regulatory regime introduced in Poland in March 2016.
- The wind down of the business in Slovakia progressed ahead of expectations.
- Strong growth delivered in IPF Digital.
- Evolved strategy embedded in the business.
- Board oversight and management challenge supported improved performance in Mexico in the second half of the year following a performance materially below our expectations in the first half.
- Efficiency programme implemented.
- Strategic people review processes and leadership development programmes operated across the Group.

2017 objectives

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

Matters considered by the Board in 2016

January

- Update on Slovakia.
- Update on the Transformation for Growth ('T4G') project: costs, responsibilities and timescales.
- Update on IPF Digital compliance.
- Consideration of Board evaluation results.

February

- 2015 Group financial results, Annual Report and Financial Statements and 2016 AGM notice reviewed and approved.
- Final dividend recommendation agreed.
- Update of the Euro Medium Term Note Programme approved.
- 2016 budget reviewed and approved following further work to understand the impact of the decision to close the business in Slovakia.
- Product structure in respect to changes to forbearance approach approved.
- Update on regulatory affairs.
- Resourcing of Group compliance function discussed and approved.
- Action plan stemming from Board evaluation agreed.
- Group Schedule of Key Risks and Risk Appetite Statements approved.
- Approval of the Audit and Risk Committee's recommendation that the 2015 Annual Report and Financial Statements, taken as a whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess performance, business model and strategy.
- Recommendation to reappoint Deloitte as the auditor of the Company approved.

May

- Update on new product performance in Poland.
- Update on Mexico trading performance.
- Update on People and Organisational Planning including succession planning for senior positions.
- Update on the Group compliance function.
- Q1 2016 trading update statement reviewed and approved.
- Shareholder voting guideline reports from IVIS, ISS and PIRC reviewed.

June

- Board strategy retreat.

July

- Update on new product performance in Poland.
- Update on insurance framework in Poland.
- Update on Mexico trading performance.
- Third-party presentation on evaluation of strategic options.
- Group half-year financial report reviewed and approved.
- Declaration of interim dividend approved.
- Group Schedule of Key Risks reviewed and approved.
- Issue of invitations to employees under the Save As You Earn scheme approved.

September

- Strategy update.
- Update on new product performance in Poland.
- Update on Mexico trading performance.
- Discussion of third-party strategic review.

October

- Q3 2016 trading update statement reviewed and approved.
- Update on regulatory affairs.
- Update on credit quality.

December

- Business plans and budgets for 2017 discussed.

Standing agenda items were discussed at each scheduled meeting comprising reports from the Chief Executive Officer, Chief Financial Officer/Interim Chief Financial Officer, Committee Chairs and Company Secretary; and a review of performance against KPIs.

> "The Nomination Committee has focused on the search for a new Chief Financial Officer and Senior Independent Director in 2016."
>
> **Dan O'Connor**
> Committee Chairman

For Board statistics
see page 45

Dear shareholder

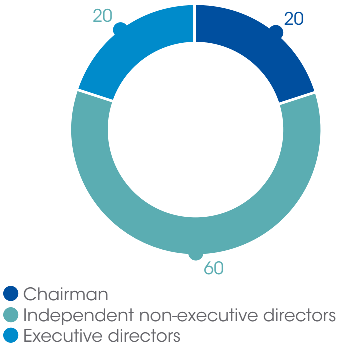
There were two departures from our Board in 2016. In the first quarter, David Broadbent, our Chief Commercial Officer, resigned from the Board and left the business and in September 2016, Adrian Gardner, our Chief Financial Officer, resigned from the Board in order to pursue an alternative business opportunity. We also needed to consider the succession plan for Tony Hales, our Senior Independent Director as, by the time of this year's AGM, it will be nine years since Tony was first elected as a non-executive director by shareholders. The Committee has recommended to the Board that Tony continues as a director through to our AGM in 2018 and Tony has agreed.

The Nomination Committee has focused on identifying a new Chief Financial Officer and Senior Independent Director who will bring the appropriate mix of skills and experience to help us oversee and deliver our strategy. We worked with The Zygos Partnership to search for a new Chief Financial Officer and with Egon Zehnder, a global executive search firm, to recruit a future Senior Independent Director. After an extensive search, the Committee recommended to the Board that Justin Lockwood, previously our Head of Finance and Interim Chief Financial Officer, be appointed to the Board as Chief Financial Officer based on his experience and depth of insight into our markets. Looking ahead, we anticipate appointing an experienced Senior Independent Director in 2017.

Committee members

Dan O'Connor – Chairman
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

Nomination Committee composition (%)



2016 objectives

- Identify successor for the Senior Independent Director role.
- Continue to review succession plans for the Board and key roles across the business.

2016 progress

- Search for new Senior Independent Director commenced.
- Undertook search for a new executive director (Chief FInancial Officer). An appointment was made in February 2017.
- Externally facilitated Board evaluation completed.

2017 objectives

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

Overview

Role

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

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

Composition

The Committee must have at least three members, the majority being independent non-executive directors. Members can also include the Chairman and the Chief Executive Officer. Three members form a quorum.

Boardroom diversity

The Board diversity policy was reviewed in June 2015 and is considered to remain appropriate.

In reviewing Board composition, the Committee considers the benefits of all aspects of diversity, including differences in skills, regional and industry experience, race and gender. Currently, we consider non-executive candidates from a wide pool including those with little or no listed company board experience and review a long list of candidates, 50% of whom we aim to ensure are women.

We only engage executive search firms who have signed up to the voluntary code of conduct on gender diversity and best practice. The stated aim included in the policy is to ensure that our Board comprises at least two female directors, a diversity commitment we continue to meet.

Activities in 2016

Meetings

The Committee met four times during the year.

Board changes

There were a number of changes in 2016. As reported in our last Annual Report, David Broadbent, Chief Commercial Officer, resigned from the Board on 23 February 2016 and left IPF on 7 March 2016. Adrian Gardner, Chief Financial Officer, stepped down from the Board on 21 September 2016 in order to pursue an alternative business opportunity. He left the business on 30 September following a handover to Justin Lockwood, the Company's Head of Finance, who became Interim Chief Financial Officer but was not appointed to the Board at that time. In February 2017, the Committee recommended to the Board the appointment of Justin Lockwood as executive director and Chief Financial Officer.

Board composition and succession

The Committee keeps under review the size, structure and composition of the Board and its committees, to ensure that they comprise individuals with a range of complementary skills. It also considered Board level succession planning during the year. This was particularly relevant recognising that it is nearly nine years since Tony Hales was first elected to the Board as a non-executive director by shareholders. He has also served as Senior Independent Director since May 2010. The Committee focused, therefore, on the search for a new non-executive director to fill this role. This is being carried out in conjunction with recruitment specialist, Egon Zehnder, and will continue in 2017. In addition, in the latter part of the year our attention turned to recruiting a new executive director to replace Adrian Gardner. This was undertaken in conjunction with The Zygos Partnership. Neither Egon Zehnder nor The Zygos Partnership have any other connection with the Company.

Election and re-election of directors

Directors are appointed to the Board following a robust selection process and on the Committee's recommendation. The performance of each director is assessed on an annual basis as part of the Board evaluation process. In addition, a review of the independence of each non-executive director is undertaken and consideration given to the attendance of each director at Board and committee meetings. Based on these reviews, the Board recommends the re-election of all directors, who are standing for re-election at the 2017 AGM, as well as the election of Justin Lockwood.

Tenure of directors

In December 2016, the Committee recommended to the Board that Cathryn Riley's appointment as a non-executive director be extended for a further three years from the end of her first three-year term in February 2017. The Board approved this extension.

Subsequent to the year end, in February 2017, the Committee recommended to the Board that Tony Hales' appointment as a non-executive director be extended through to the AGM in 2018. The Board approved this recommendation. Consideration was given to his independence as described on page 59.

An analysis of the tenure of all current directors is shown on page 45 and their individual length of service is shown in their biographies on pages 46 and 47.

Further activities

At the beginning of 2017, the Committee also reviewed and approved Board and committee meeting attendance, which can be found on page 45.

Dan O'Connor
Chairman

"The Committee closely monitored the significant regulatory and taxation developments, and promoted improvements in our management of the threat of cyber-attack."

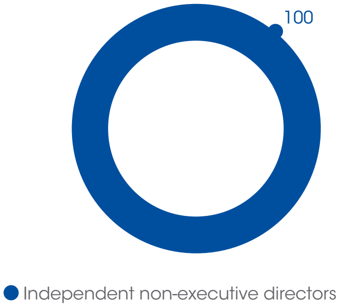
Richard Moat
Committee Chairman

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

Dear shareholder

The Committee focused its attention throughout 2016 on regulatory challenges, information security and business continuity planning, and the enhancement of the financial control environment for IPF Digital. The Committee encouraged the continuing improvement of the capabilities and connectivity of the risk management process across the business, with emphasis on its ability to identify and assess emerging risk. 2017 will see a continuing close focus by us on the management of regulatory risk particularly in our European markets.

Audit and Risk Committee composition (%)



Committee members

Richard Moat – Chairman and independent non-executive director

Jayne Almond – Independent non-executive director

Tony Hales – Senior independent non-executive director

2016 objectives

- Review the approach for implementing IFRS 9 accounting requirements.
- Review progress in enhancing the control environment for IPF Digital and the management of new market entry processes.
- Review systems for customer service and complaints management.
- Review the organisation's approach to implementing new products and sales delivery channels.
- Continue development of structures in place to ensure vigilant monitoring of legal and regulatory developments.

2016 progress

- An early approach to the implementation of IFRS 9 was agreed, progress was followed closely during the year and will be reviewed by Internal Audit during 2017.
- The transformation of IPF Digital's financial control environment was monitored closely. New market entry processes were audited internally and recommendations for improvement made.
- The approach to managing legal compliance risk and the evolution of the compliance framework across the Group was monitored closely.
- The Operational Governance Framework extended to include future legal and regulatory developments.
- Evaluated the drivers of growth within the Mexico home credit business.
- Audited the systems for managing customer service and complaints together with the management of the broadening product portfolio and recommendations made.
- Monitored developments relating to the 2008 and 2009 Polish tax audits.

2017 objectives

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

Overview

Role

The objective of the Committee is to oversee the Group's financial reporting, internal controls and risk management procedures (as described on pages 36 to 37), together with the work performed by the external auditor and the internal audit function. The Committee's terms of reference are available on our website. Its main responsibilities are to:

- monitor the Group's systems of internal control, including financial, operational and compliance controls and risk management systems, and to perform an annual review of their effectiveness;
- monitor the integrity of the Financial Statements of the Company and the formal announcements relating to the Company's financial performance, reviewing significant financial reporting 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, in relation to the appointment, reappointment and removal of the external auditor and to approve its terms of appointment;
- review and monitor the objectivity and independence of the external auditor and the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- review and approve the internal audit programme for the year and monitor the effectiveness of the internal audit function in the delivery of its plan; and
- keep under review the Group Schedule of Key Risks and consider the principal risks (which are described on pages 37 to 43) facing the Group and their mitigation.

Composition

The Committee comprises three independent non-executive directors and is chaired by Richard Moat, a Fellow of the Association of Chartered Certified Accountants, and who has relevant and recent experience for the purposes of the UK Corporate Governance Code (the 'Code'). The other non-executive directors are Jayne Almond who has over 20 years experience in financial services and Tony Hales who has strong business expertise and extensive knowledge of our Group. The external auditor, Deloitte LLP, the Chief Executive Officer, the Chief Financial Officer, the Interim Chief Financial Officer (from September 2016 to February 2017) and the 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 member of the Group's senior management being present, to discuss the external audit process. The Head of Internal Audit reports directly to the Chairman of the Committee, which ensures his independence from the management and operation of the business.

Case study: Information security – protecting our customers' data

Throughout the year the Committee requested and received briefings from management on arrangements relating to information security. The Committee maintains a strong awareness of cyber threats and incidents and encourages management to learn from the experience of other organisations and partners, and to conduct regular cyber incident rehearsals to minimise the potential for harm and service disruption for customers. Supported by an external partner, a rehearsal was undertaken which included a simulated cyber-attack with a "hostage" theme and involved teams across the Group.

Drawing directly on the Audit and Risk Committee's experience, the Group also finalised the implementation of an information security management framework based on ISOs 27001 and 22301 along with a suite of protective technical measures that are monitored from head office and by external partners. The Committee received reports on the results of this monitoring and sought additional clarification directly from management as necessary.

Activities in 2016

Meetings

The Committee met six times during the year, twice to consider risk and four times to consider audit-related matters. Attendance at meetings can be found on page 45.

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 clear, concise, fair, balanced and understandable.

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

- **Impairment of receivables:** the key area of judgement in respect of impairment provisions made against customer receivables in the home credit division and in IPF Digital is the predictive accuracy of statistical models used to estimate future customer default rates and expected future timing of cash flows in respect of each portfolio. At both the half-year and full-year results, the Committee considered a paper prepared by management summarising the work performed to test the continued predictive capacity of these statistical models and to update them where appropriate. The external auditor performed audit procedures on impairment provisioning and reported its findings to the Committee.
- **Revenue recognition:** the judgement in respect of revenue recognition is the methodology used to calculate the effective interest rate. The external auditor performed procedures to assess management's calculations and assumptions used to calculate the effective interest rate and reported its findings to the Committee.
- **Provision for uncertain tax positions:** IPF operates in multiple jurisdictions where the taxation treatment of transactions is not always certain and, therefore, management is required to make judgements, based on internal expertise and external advice, on the methodology to be adopted for accounting for uncertain tax positions (including the adverse decision received in early 2017 relating to two tax audits in Poland). The external auditor performed procedures to assess management's judgements and reported its findings to the Committee.
- **Deferred tax accounting:** the key area of judgement in respect of IPF's deferred tax assets, which arise largely from timing differences between the accounting and tax treatments of revenue and impairment transactions, is the extent to which the timing differences will reverse and a tax deduction will be obtained in future periods. The external auditor performed procedures to assess whether the recognition of the deferred tax asset is appropriate and reported its findings to the Committee.
- **Regulation:** the business is subject to regulatory scrutiny in multiple jurisdictions and at times it is appropriate to make provision for potentially adverse rulings by regulatory authorities. The Committee received reports from the Group Legal Team outlining the various regulatory and other similar issues and management's approach.

Internal control and risk management

While the Board is responsible for the Group's systems of internal control, including risk management, the review of its effectiveness is delegated to the Committee. It is recognised that any system can provide only reasonable and not absolute assurance against material misstatement or loss. The Committee reviews and approves the Group Schedule of Key Risks which describes the principal risks facing the business. The Board then formally considers the Schedule on a six-monthly basis and approves risk appetite annually. The internal control environments in place to mitigate the impact of each risk are monitored by the Committee on a regular basis, as are the principal actions being taken to improve them. The Committee requests additional presentations on key business areas as necessary to supplement its understanding of control environments in place. The areas covered by these in 2016 are referred to in the 'Training' section on page 56. The internal controls in relation to the preparation of consolidated Financial Statements are outlined on page 67.

In particular, the Committee monitored legal and regulatory compliance risk and developing tax issues. Specifically, the Committee focused on the progress of the Polish tax audits during 2016, and received, reviewed and challenged regular updates from management including an assessment of the Group's position from external legal advisors.

The Board as a whole monitored developments relating to the draft bill published by the Polish Ministry of Justice which amongst other details proposes a significant reduction to the cap on non-interests costs that may be charged by lenders in connection with a consumer loan agreement that became effective in March 2016. The Committee will make this a focus for 2017.

The Committee also increased its oversight of cyber-risks and continued to monitor the enhancement of the control environment at IPF Digital.

The Committee is supported in its work by the Risk Advisory Group, which in 2016 comprised the Chief Executive Officer, Chief Financial Officer (to September 2016), the Interim Chief Financial Officer (from September 2016) and Group Legal Director, together with other members of the senior leadership team. The Risk Advisory Group meets four times a year. It reports to the Audit and Risk Committee and considers the risk assessments and risk registers produced in each country, and updates the Group Schedule of Key Risks. It also considers areas of specific risk and particular issues.

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

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

Internal audit

A firm basis for the opinion on the Group's system of internal control was provided by the Head of Internal Audit. PwC and KPMG were engaged to support specific thematic audits where specialist technical knowledge was required.

Significant internal audits in 2016 were performed in the following areas:

Basic assurance

Branch level reviews:

(covering one-fifth of branches)

- Management of administration, operational, financial and loss prevention oversight processes in home credit branches.

Head office audits:

- Management of the branch administration and quality control processes.
- Group's ability to be aware of and respond to changes in market conditions.
- Management of credit and subsequent collections risk.
- Management oversight of the effectiveness of the framework to manage taxation-related risk.
- Management of change risk.

Thematic audits

Group-wide:

- Delivery of growth plans within the Mexico home credit business and IPF Digital.
- Management of new market entry processes within IPF Digital.
- Legal compliance in all businesses and efforts made to anticipate legal and regulatory developments.
- Management of financial reporting risk within IPF Digital.
- The development and implementation of our MyProvi agent mobile technology solution.
- Controls in place to manage the increasing complexity of our broadening product range.
- Implementation of a customer relationship management ('CRM') system in the Mexico home credit business.
- Group core controls in respect of customer service and complaints management.

During 2016, a series of planned internal audits (see table above) was undertaken in markets and head office environments. These were 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 tracks the resolution of findings and recommendations raised in internal audit reports.

The Internal Audit function has continued to monitor the effectiveness of the overall operational governance and oversight structure throughout 2016.

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

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

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

The Committee believes that the Group receives a particular benefit from certain non-audit services where a detailed knowledge of its operations are important or where the auditor has very specific skills and experience. However, other large accountancy practices are also used to provide services where appropriate. During the year, the non-audit services carried out by Deloitte LLP were as follows.

Non-audit services carried out by Deloitte in 2016	Fee £'000
Taxation compliance services	51
Other assurance services	40
Total	91

Audit tendering and auditor rotation

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

Deloitte LLP has now been external auditor for over five years and during this time the audit engagement partner has been Stephen Williams. The 'APB Ethical Standard 3 (Revised) Long Association With The Audit Engagement' requires the audit engagement partner to rotate after five years, unless the Committee decides that a degree of flexibility is necessary to safeguard the quality of the audit and the audit firm agrees, at which point the audit engagement partner may continue in this position for an additional period of up to two years. Last year, the Committee considered the rotation of the audit engagement partner and requested on the grounds of audit quality for Stephen Williams to lead the audit for a sixth time in 2016 before rotating to a suitably experienced partner at the AGM in 2017. It remains the intention to rotate the audit engagement partner role from Stephen Williams to a suitably experienced partner, Peter Birch, with effect from the 2017 AGM.

The Company has complied during the year ended 31 December 2016, and up to the date of this report, 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 2016. This included presentations on the following key business areas:

- managing credit risk within IPF Digital;
- managing compliance risk;
- fraud prevention and detection measures within the organisation;
- business continuity including the improvements made to enhance disaster recovery capabilities;
- implementing IFRS 9;
- information security and the approach to addressing the ever increasing cyber-security risk; and
- managing financial reporting risk within IPF Digital.

This training was complemented by a visit to the Group's businesses in Mexico and Poland, both of which included visits to branches and discussions with the management teams.

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 2016 and performed a formal assessment of their effectiveness. In addition, the Committee, where appropriate, ensures that necessary actions have been or are being taken to remedy identified failings or weaknesses in the internal controls framework. These processes for identifying, evaluating and managing the principal risks faced by the Group were in place throughout 2016 and up to 1 March 2017. The Committee has also undertaken a review of its own effectiveness among its members, executive director, management and external advisors and concluded that it continues to be effective.

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 2016, taken as a whole, are concise, forward-looking, fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Richard Moat
Chairman

> "A key enabler of our overall strategy is the development of our technology capabilities."

John Mangelaars
Committee Chairman

For more on our investment in technology see page 18

Dear shareholder

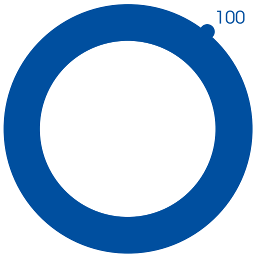
During my first full year as Committee Chairman, its remit moved away from oversight of our Transformation for Growth programme, which had been mostly completed, to overseeing the advancement of the Group's technology capabilities. We see technology as increasingly fundamental to driving efficiency and supporting growth opportunities across the Group. Improvements in our capabilities will enable agents to serve customers better, decrease costs, give us deeper insights into our customers and business, and underpin the growth of our digital operation. In May 2016, the Committee was renamed the Technology Committee to reflect this revised focus.

In March 2016, to underscore the importance of technology we appointed a new Chief Information Officer, Chris Robinson, who has experience in leading IT, innovation and technology functions in multinational companies. His appointment led to a review of business IT requirements and saw the development of a revised strategic approach to IT.

This strategy has four key pillars: creating a strategic digital platform, restructuring IT into a centrally managed function, digitising the home credit business and using data as a strategic asset. Together, these pillars will enable technology to serve our businesses consistently and drive forward competitive advantage.

Overall, 2016 was a year of refocus and the start of the implementation of our revised strategic approach. Developing our technology capabilities will gain further momentum in 2017.

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

Former Committee member

David Broadbent (until 23 February 2016) – Former executive director and Chief Commercial Officer

2016 objectives

- Focus on deliverables that bring efficiency benefits.
- Roll out agent mobile technology.
- Complete roll out of sales and service organisation design across all home credit markets.
- Complete implementation of new CRM system in Mexico.

2016 progress

- Remit refocused and a new technology strategy approved.
- Test of agent mobile technology in the Czech Republic, Hungary and Poland.
- Successful integration of IPF Digital technology platforms into the Group.
- Sales and service organisation design structure rolled out in Poland, the Czech Republic and Romania.
- Implementation of CRM system in Mexico completed in June.

2017 objectives

- Launch new Strategic Digital Platform into existing and new digital markets.
- Expand the delivery capabilities of the new Digital Centre of Excellence.
- Complete the full integration of technology staff from across businesses into the new centralised group.
- Roll out mobile applications to digitise the home credit business.
- Implement new Data Strategy into IPF Digital and our home credit businesses.

Overview

Role

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

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

Composition

A quorum is three members.

Activities in 2016

Meetings

The Committee met four times during the year.

Technology – a key enabler of our strategy

During 2016, it was recognised that a key enabler of our strategy is the development of our technology capabilities. This led to a reappraisal of the way we view the role of technology and, as a result, the Committee supported work to revise our IT strategy.

A revised strategic approach to IT

The objective of our revised strategy is to ensure that our technology capabilities are fit for an environment where challenging regulatory environments, changing customer behaviours and accelerating competitor growth converge.

By enhancing our capabilities, we will be better positioned to exploit existing and new disruptive technologies to ensure we maximise revenue, profitability, productivity and efficiency, and minimise competitive risks. The strategy also aims to create a seamless customer journey across all our product offerings and platforms whether home credit or digital.

As part of delivering the IT strategy we are looking to:

- become a data-led organisation;
- create a centrally managed IT function with appropriately balanced resourcing across home credit and IPF Digital businesses;
- leverage Group-wide capabilities across the IPF Digital technology platform;
- strengthen in-house capability and focus investment on capabilities that bring competitive advantage;
- adopt an 'open' architecture approach in order to facilitate future system developments and integration with third parties;
- ensure home credit is digitised and supported effectively with a dedicated IT structure and effective delivery team; and
- enhance our programme delivery and governance capabilities.

Case study: MyProvi – increasing efficiency through technology

Our MyProvi programme is modernising our home credit business by delivering mobile applications to agents in order to capture sales and collections information securely and automatically post it into our core systems. As well as reducing administration overhead in the business this will bring about improved compliance and data quality. Numerous paper forms and significant volumes of paper will be eliminated from our operation. The initial collections functionality has been deployed to a small number of agents in Poland, Hungary and the Czech Republic and a volume roll out will proceed in the first half of 2017.

Technology in our markets in 2016

2016 has seen the successful introduction of enhanced technology in a number of our markets. In Hungary, we deployed mobile credit scoring functionality to our agents in order to make customer applications more efficiently from credit scoring to decision point. Credit scoring has been operating well and was rolled out to all the target audience. User feedback was very positive, with 85-90% satisfaction levels. In Mexico, the CRM system went live in the call centre.

Key priorities

To ensure that technology drives our business forward, we are now focusing on a number of key priorities:

- delivering MyProvi agent mobile technology apps to our 25,600 agents;
- increasing investment in digital developments, funded by savings in home credit technology costs;
- continuous improvements to our IPF Digital platform to ensure it remains cutting edge;
- improving digital options for Provident customers through the roll out of our Provident-branded digital offering;
- creating integration between our home credit and IPF Digital businesses to allow customers to move seamlessly between models and generate incremental profit; and
- increasing investments in data to become a data-led organisation.

John Mangelaars
Chairman

Compliance with the UK Corporate Governance Code

> "The highest standards of governance underpinned by process and culture are an absolute necessity."
>
> **Dan O'Connor**
> Chairman

For our statement of overall compliance see page 44

A: Leadership

A.1: The role of the Board

The Board is responsible for the long-term success of the business and for ensuring that it operates in the best interests of all its stakeholders. It meets regularly throughout the year providing leadership and strategic direction. Our strategy and business model can be found on pages 10 to 13. There is a formal schedule of matters reserved specifically for decision by the Board, published at www.ipfin.co.uk. Other matters are delegated specifically to six principal Board committees. The Chairman of each committee briefs the Board at each meeting on the principal items that were discussed, decisions made and key issues. Their terms of reference are also available at www.ipfin.co.uk and from the Company Secretary.

The day-to-day running of the business is delegated to the Executive Committee. In 2016, this comprised the Chief Executive Officer, the Chief Financial Officer (until 30 September 2016), the Chief Commercial Officer (until 23 February 2016) and the Interim Chief Financial Officer (from 30 September 2016). The Executive Committee met frequently during the year to process a wide range of matters.

The Disclosure Committee met as required to consider whether an announcement to the London and Warsaw Stock Exchanges was required. During 2016, it comprised the Chief Executive Officer, the Chief Financial Officer (until 30 September 2016), the Chief Commercial Officer (until 23 February 2016), the Interim Chief Financial Officer (from 30 September 2016) and the Company Secretary. It met seven times.

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

A.2: Division of responsibilities

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

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

A.3: The Chairman

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

A.4: Non-executive directors

The independent non-executive directors have been appointed for a fixed period of three years, subject to re-election by shareholders. The initial period may be extended for a further period. Their letters of appointment may be inspected at our registered office and are available from the Company Secretary. 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 considered that notwithstanding the duration of his tenure he continued to be independent in character and judgement and that his experience was invaluable to the Company.

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

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

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

B: Effectiveness

B.1: The composition of the Board

At 31 December 2016, the Board comprised five non-executive directors, one executive director and the Chairman. A further executive director, Justin Lockwood, joined the Board on 23 February 2017. Biographical details and committee membership are shown on pages 46 and 47. Details of our diversity policy can be found in the Nomination Committee report on page 51.

B.2: Appointments to the Board

There were no new appointments to the Board in 2016. Further detail relating to the recruitment process underway to find a new Senior Independent Director and the appointment in 2017 of a new Chief Financial Officer can be found in the Nomination Committee Report on pages 50 and 51.

B.3: Commitment

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

The Board has approved a policy on other directorships; any request for an exception to this is considered on its merits. An executive director will be permitted to hold one non-executive directorship (and to retain the fees from that appointment) provided that the Board considers this will not affect his/her executive responsibilities adversely. During his tenure as Chief Financial Officer, Adrian Gardner was also a non-executive director of Amdocs Limited.

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

B.4: Development

Our policy is to provide appropriate training to directors. Training takes into account each individual's qualifications and experience and includes environmental, social and governance training as appropriate. Training needs are reviewed annually following the outcome of the Board evaluation process. Training also covers generic and specific business topics and in 2016 included presentations to the Board on subjects including a strategic review of the business and training on the new Market Abuse Regulation, which came into effect on 3 July 2016, ensuring the Board is cognisant of the current rules on disclosure. A comprehensive, individually tailored induction plan is prepared for new directors. The Board also visited the businesses in Mexico and Poland and received updates from the management teams in these markets.

Case study: The Board in Warsaw

In October, the Board visited our home credit and digital businesses in Poland. Hosted by Country Manager, David Parkinson, and his management team, the Board gained a deeper insight into the Polish home credit business, its current performance and outlook for the future. The Board received updates on the competitive and regulatory environment in Poland. Discussion focused on the team's plans to create further value through the continued development of Provident Direct and profit optimisation initiatives. In an energetic three-hour session in the afternoon, particular attention was given to dissecting the key drivers of value. The Board also visited the IPF Digital team based in Warsaw. During their time with the digital team, the Board heard presentations on our Hapiloans business, the wider IPF Digital portfolio performance and strategy. Non-executive director, Jayne Almond, commented: "The enthusiasm of the Polish management teams shone through. Debating issues directly with the teams on the ground gave me a real feel for the challenges they face and the opportunities open to them."

B.5: Information and support

All directors are able to consult with the Company Secretary, who also updates the Board on developments relating to governance on a regular basis. The appointment and removal of the Company Secretary is a matter for the Board. Ben Murphy, Group Legal Director and Company Secretary, was Company Secretary throughout 2016 and left IPF on 20 January 2017. The Board is in the process of recruiting his replacement and the role of Company Secretary is being undertaken by Trudy Ellis in the interim. The Company Secretary is secretary to the Board Committees (other than the Disclosure Committee of which the Assistant Company Secretary is secretary). Any director may take independent professional advice at the Company's expense relating to the performance of his/her duties.

B.6: Board and committee evaluation

In January 2016, the Board considered the output of the 2015 Board and committee evaluation. An action plan was put in place and executed during 2016 to address the main areas of development highlighted, which related to: increased focus on longer-term strategic issues; more concise financial reporting; regular monitoring of 'critical' risks; and consideration of whether the Board had the appropriate skill mix and level of diversity and whether these were being leveraged appropriately. The Board carried out an externally facilitated evaluation of its performance in late 2016 led by David Mensley of EquityCommunications Limited. An external evaluation is required by the Code at least every three years. Directors completed a questionnaire, the results of which were collated and assessed by David Mensley prior to his report being presented to the Board in January 2017. The 2016 evaluation found no sense of a board which lacked unity or reluctance to share feelings or opinions and the Board members supported this finding and considered it important. Areas for focus continued to include communication of strategy and the strength of the leadership team. These will form the basis of our action plan for 2017.

B.7: Election/re-election

Under our Articles of Association, each director must offer himself/herself for re-election every three years. After nine years, a director, other than an executive director, must offer himself/herself for re-election annually. A director who is appointed initially by the Board is subject to election at the next AGM. Consequently, Justin Lockwood will stand for election at our AGM in 2017. In accordance with best corporate governance practice, all other directors will offer themselves for re-election again at our AGM in 2017. Details of the directors, including their key strengths and contribution, are shown on pages 46 and 47.

C: Accountability

C.1: Financial and business reporting

A statement of the directors' responsibilities in relation to the Financial Statements and the Group's status as a going concern is on page 70. The Group's strategy and business model, key performance indicators and relevant risks are on pages 10 to 13, 20 to 21 and 37 to 43.
A statement confirming that the Board considers that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy is on page 70.

C.2: Risk management and internal control

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten our business model, future performance, solvency or liquidity. Details can be found on pages 36 to 43. The Board determines the Company's risk appetite and has established risk management 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 2016.

C.3: Audit Committee and auditors

The report of the Audit and Risk Committee is set out on pages 52 to 56. This details its composition, role and responsibilities, work during 2016, its interactions with the external auditor and our policy regarding external auditor tendering and rotation. The Committee's terms of reference are available at www.ipfin.co.uk.

D: Remuneration

D.1: The level and components of remuneration

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

➔ **For our Directors' Remuneration Report** see pages 71-93

D.2: Procedure

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

E: Relations with shareholders

E.1: Dialogue with shareholders

The executive directors communicate with institutional shareholders regularly. The Chairman and Senior Independent Director also meet with shareholders from time to time. The Chairman is responsible for ensuring that appropriate channels of communication are established between the executive directors and shareholders and for ensuring that the views of shareholders are made known to the entire Board. A programme of investor engagement is in place and the Board is updated on a regular basis. The Board is also briefed regularly on shareholdings and we seek feedback from major shareholders twice a year 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 we make to the London and Warsaw Stock Exchanges are posted on our website: www.ipfin.co.uk.

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

The Investors section of our website gives shareholders and potential investors access to a wealth of Company information. In 2016, we upgraded our website which is now device responsive and so allows users easy access on mobiles, tablets and PCs.

Case study: Investor engagement

We undertook an active programme of investor engagement in 2016. 480 connections were made with current and potential investors through face-to-face meetings, conference calls, email dialogue, web casts, roadshows, conferences and results presentations. Key topics included performance, regulation, competition, funding and IPF Digital. The Chairman and Senior Independent Director held a private lunch for major shareholders in November, which was attended by seven fund managers and a constructive discussion covered performance in Mexico, succession planning and our digital strategy. In September and October, we sought shareholder views on our proposed 2017 Directors' Remuneration Policy. Subsequently, a number of individual discussions were held between shareholders and the Chair of the Remuneration Committee. Initial feedback focused on deferral levels and proposals around outperformance. This engagement helped us refine the proposed policy, which can be found in the Directors' Remuneration Report on pages 71 to 93.

E.2: Constructive use of general meetings

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

Shareholders are invited each year to the AGM. Our 2017 AGM will be held at 10.30am on Wednesday 3 May 2017 at International Personal Finance plc, Number Three Leeds City Office Park, Meadow Lane, Leeds LS11 5BD. An explanation of the items of business will be contained in the Notice of Annual General Meeting 2017 to be sent to shareholders and dated 21 March 2017.

Other disclosures

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

Listing Rule 9.8.4R disclosures

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

Listing Rule 9.8.4R	Disclosure required	Cross-reference
(1)	Interest capitalised and related tax relief	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	Not applicable
(5)	Waiver of emoluments by a director	Not applicable
(6)	Waiver of future emoluments by a director	Not applicable
(7)	Non-pre-emptive issues of equity for cash	Not applicable
(8)	Non-pre-emptive issues of equity for cash by major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Page 67
(11)	Provision of services by a controlling shareholder	Not applicable
(12) and (13)	Shareholder waiver of dividends	Not applicable
(14)	Statement by the Board	Not applicable

Incorporation and constitution

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

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

Share capital

Details of our share capital are shown in note 27. On 31 December 2016, there were 234,244,437 ordinary shares of 10 pence each in issue. No shares were issued during the year. None were bought back, transferred to treasury or cancelled.

The ordinary shares can be held in certificated or uncertificated form.

Shareholders' rights and obligations

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

Restrictions on shareholders' rights

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

Restrictions on holding securities

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

Transfer

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

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

Voting

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

Alteration of share capital and variation of rights

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

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

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

Profit and dividends

Our policy is to adopt a progressive dividend policy, reflecting the profitability of the Group's businesses together with its capital and cash flow requirements, to target a pay-out ratio of 35% of earnings.

Details of the proposed final dividend for 2016 payable in 2017 can be found on page 33. Details of past dividend payments can be found on page 136.

Interests in voting rights

As at 31 December 2016, we had been notified, pursuant to the Disclosure Guidance and Transparency Rules, of the following notifiable voting rights in our issued share capital.

Name[1]	Voting rights	% of issued share capital[2]	Nature of holding
Standard Life Investments (Holdings) Limited	24,761,883	11.13	Direct/Indirect
FIL Limited	14,008,597	6.31	Indirect
FMR LLC	11,682,426	5.28	Indirect
Norges Bank	11,353,366	5.10	Direct
Marathon Asset Management LLP	12,841,168	5.01	Indirect
Franklin Templeton Investments Ltd	12,062,651	5.01	Indirect
Aberforth Partners LLP	11,605,513	5.01	Indirect
Old Mutual Asset Managers (UK) Ltd	12,547,167	4.88	Direct/Indirect
Schroders plc	12,287,572	4.77	Indirect
BlackRock, Inc.	11,670,102	4.54	Indirect
Investec Asset Management Ltd	8,995,482	3.50	Indirect
Oppenheimer Funds Inc/Baring Asset Management Ltd	7,769,836	3.02	Indirect
BNP Paribas Investment Partners	7,017,954	3.02	Indirect

Between 1 January and 28 February 2017, we were notified pursuant to the Disclosure Guidance and Transparency Rules of the following notifiable voting rights in our issued share capital.

Name[1]	Voting rights	% of issued share capital[2]	Nature of holding
Standard Life Investments (Holdings) Limited	26,355,459	11.85	Direct/Indirect

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

Agreements on change of control

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

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

- our bank facility agreements, which provide for a negotiation period following a change of control and the ability of a lender to cancel its commitment and for outstanding amounts to become due and payable;
- our Euro Medium Term Note[1] programme, which entitles any holder of a Note to require us to redeem such holder's Notes if there is a change of control and, following such change of control, the Notes are downgraded;
- our Polish Medium Term Note[2] programme, which entitles any holder of a Note to require the issuer to redeem such holder's Notes if there is a change of control and, following such change of control, the Euro Medium Term Notes are then downgraded (or if no such Notes are then outstanding, in certain other circumstances); and
- provisions in our share incentive plans may cause awards granted to directors and employees to vest on a takeover.

1. The Euro Medium Term Note programme was established in 2010. The following Notes (listed on the London or Irish Stock Exchanges) have been issued under the programme and are outstanding as at the date of this report: Hungarian forint 4 billion issued in January 2013 with a five-year term and an 11.0% coupon; sterling 101.5 million issued in May 2013 and November 2013 with a seven-year term and a 6.125% coupon; Czech crown 250 million issued in November 2013 with a five-year term and a 5.25% coupon; euro 300.0 million issued in April 2014 with a seven-year term and a 5.75% coupon; euro 40.0 million issued in May 2014 with a four-year term and a 4.25% coupon; euro 100 million 'tap' of our existing Eurobond issued in April 2015 with a six-year maturity and a 5.75% coupon; Czech crown 200 million issued in December 2015 with a three-year term and a 5.5% coupon; Romanian lei 43.5 million and 22.0 million bonds issued in December 2015 with a three-year term and a 7.0% coupon; and Romanian lei 79.5 million bond issued in December 2016 with a three-year term and a 8.0% coupon (listed on the Irish Stock Exchange).
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.

Employees

Employee engagement is key to our People Strategy and we survey employees across the Group annually to understand their views. In 2016, we carried this out in conjunction with Gallup. 78% of employees across the Group completed the survey. Overall, the results showed a marginal improvement in overall engagement over the previous year which was pleasing especially given the level of change in the business. The area which showed the highest increase in score was recognition of the work performed by colleagues. This demonstrated to us that not only do our teams work hard to support each other, they are also appreciative of the support they receive. Results were fed back to all our teams and action plans developed in conjunction with them as part of our continued commitment to empower our people.

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

Employees are able to participate in our equity share incentive schemes which are shown on page 66. We encourage employees to take part in our SAYE Scheme, as a way of involving them in the Company's performance.

Information on the Group's employment policies is given on page 68, and on the gender split across the Group at 31 December 2016 on page 23.

Appointment and removal of directors

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

Directors' powers

Authority to purchase shares

At the 2016 AGM, we received shareholder authority to buy back up to 22,100,898 of our own shares until the earlier of the conclusion of the 2017 AGM or 30 July 2017. Any ordinary shares so purchased could be cancelled or held in treasury. This authority was not exercised in 2016. A further authority to purchase our own shares will be sought at the 2017 AGM.

Power to allot securities and pre-emptive rights

As at 31 December 2016, the directors had authority to allot further securities up to an aggregate nominal amount of £7,366,000 and, broadly, up to a further £7,366,000 for a rights issue. Further authorities will be sought at the 2017 AGM including the disapplication of pre-emption rights in certain circumstances.

Borrowing powers and other restrictions

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

Directors' conflicts of interest

To take account of the Companies Act 2006, the directors adopted a policy on conflicts of interest and established a register of conflicts. The directors consider that these procedures have operated effectively in 2016 and up to 1 March 2017.

Directors' indemnities and insurance

Our Articles permit us to indemnify our directors (or those of any associated company) in accordance with the Companies Act 2006. However, no qualifying indemnity provisions were in force in 2016 or at any time up to 1 March 2017 other than under the International Personal Finance plc Pension Scheme (the 'Pension Scheme'). Under the deed establishing the Pension Scheme, we grant an indemnity to the trustee and the directors of the trustee. Two of these directors are directors of subsidiaries of IPF.

We have appropriate Directors' and Officers' liability insurance in place.

Financial instruments

Information on financial instruments is given on pages 34 and 35 and in notes 20, 21 and 22 to the Financial Statements on pages 119 to 127.

Share incentives

Equity incentive schemes

The Company currently operates six equity incentive schemes. Details of individual grants to directors made in 2016 are set out in the Directors' Remuneration Report on pages 91 to 92. The schemes are as follows:

Scheme	Abbreviated name	Eligible participants
The International Personal Finance plc Approved Company Share Option Plan	CSOP	Executive directors and senior managers
The International Personal Finance plc Deferred Share Plan	Deferred Share Plan	Executive directors and senior managers
The International Personal Finance plc Have Your Share Plan	Have Your Share Plan	Overseas employees
The International Personal Finance plc Performance Share Plan	Performance Share Plan	Executive directors and senior managers
The International Personal Finance plc Employee Savings-Related Share Option Scheme	SAYE Scheme	Executive directors and UK employees
The International Personal Finance plc Discretionary Award Plan	Discretionary Award Plan	Employees other than executive directors

Details of outstanding awards are as follows:

Scheme	Awards outstanding at 31 December 2015	Awards lapsed in 2016	Awards exercised/ vested in 2016	Awards outstanding at 31 December 2016	Exercise price (if any)	Normal exercise/vesting date	Awards exercised/ vested from 1 January to 28 February 2017
CSOP	213,812	(89,973)	(9,783)	390,626	208p – 636p	23 Jul 2013 – 22 Mar 2026[1]	–
Deferred Share Plan	1,490,878	(161,492)	(448,803)	1,314,751	–	24 Mar 2014 – 22 Mar 2026	–
Have Your Share Plan	309,257	(55,478)	–	253,779	–	2 June 2017 – 2 September 2018	–
Performance Share Plan	4,420,849	(999,869)	(1,071,111)	4,329,193	–	23 Jul 2013 – 22 Mar 2026[1]	(5,391)
SAYE Scheme	407,587	(289,017)	(16,214)	433,509	187p – 509p	01 Oct 2015 – 30 Apr 2022[2]	–
Discretionary Award Plan	120,000	–	–	320,000	–	8 May 2018 – 5 September 2019	–

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

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

Budgetary process and financial reporting

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

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

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

Employee benefit trust

We operate two employee trusts with an independent trustee, Capita Trustees Limited, to hold shares pending employees becoming entitled to them under our equity incentive schemes. On 31 December 2016, the trustees held 528,160 shares in IPF. The trusts waive their dividend entitlement and abstain from voting at general meetings. Shares to be acquired through our share plans rank pari passu with the shares in issue and have no special rights.

Other external stakeholders

Supplier policy statement

We agree terms and conditions for our business transactions with suppliers and payment is made in accordance with them, subject to the terms and conditions being met by the supplier. IPF acts as a holding company and had no material trade creditors at 31 December 2016. The average number of days' credit taken by the Group during the year was 27 days (2015: 18 days).

Key contracts and other arrangements

This information is given pursuant to Section 417(5)(c) of the Companies Act 2006. Our trading subsidiaries have entered into contracts with their agents, who are self-employed. The exception to this is Hungary and Romania where agents are employed for regulatory reasons.

Certain Group companies have entered into agreements with Fujitsu Services Limited, HCL Great Britain Limited, Mastek UK Limited, T-Mobile Polska S.A. and KIO Networks in relation to IT services provided to the Group.

The Group's activities in the Czech Republic, Poland, Mexico and Spain are subject to general trade licences only, as opposed to any licensing or supervision by a financial authority. In Romania and Lithuania, the business is included in a register of credit providers maintained by the respective National Bank and in Finland by the Regional State Administrative Agency of South Finland. The Group's operations in Bulgaria, Hungary and Slovakia are subject to an operating licence issued by the respective National Bank and in Estonia to a licence by the Financial Supervision Authority and in Latvia to a licence by the Consumer Rights Protection Centre. The business in Australia holds a credit licence issued by the Australia Securities and Investment Commission (Australia). A licensing regime was introduced in the Czech Republic in 2016 and the business in the Czech Republic has submitted its application for a licence to the Czech National Bank.

Whistle-blowing

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

Anti-bribery policy

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

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

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

Human rights, diversity and modern slavery

Our approach to human rights and diversity is outlined on page 23. Our statement on the Modern Slavery Act 2015 is available on our website at www.ipfin.co.uk.

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

The Board takes regular account of the significance of ESG matters to the Group and has identified and assessed the significance of ESG risks to the Company's short and long-term value as part of the risk management process. It recognises that a proactive programme of reputation management through a range of progressive, responsible business initiatives adds to the sustainable long-term value of the Company. Responsibility for this area rests with the Chief Executive Officer who sits on the Reputation and Regulation Committee, which sets guidance, provides direction and oversees policies and progress in ESG matters. Key ESG issues that impact our stakeholders are: business ethics; public perception and ensuring that work with communities is relevant; social and financial exclusion; health and safety; and attracting and retaining skilled and well-motivated people. Corporate affairs activity, health and safety, people management and business ethics issues were all discussed at Board meetings in 2016. 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 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 recruitment and progression is based purely on merit and that all employees have the same access to training and career development opportunities.

During 2016, we continued to build on the success of our business ethics programme with a focus on communications and training around our Code of Ethics. 99% of employees completed business ethics training and in 2016, this training has been extended to our agents and 85% of agents completed it successfully. The training, which utilises ethical dilemmas that our employees and agents may face, ensures that employees and agents are fully aware of our business ethics programme and Code of Ethics. Our Code of Ethics is available on our website at www.ipfin.co.uk.

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 assessed independently against OHSAS 18001 and all home credit markets, including Group head office, were certified as compliant. The framework is overseen by the Group Loss Prevention Committee, which reports annually to the Board by means of a written report. 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. In 2016, we successfully implemented 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 (LBG) methodology to measure this investment.

In terms of charitable donations in 2016, we invested £488,878 in local communities across the Group (2015: £571,284). This represents 0.53% of our profit before tax. 48% of our community investment focused on education and 23% on social welfare. 2,740 employees volunteered in Company time (2015: 3,408), representing 30% of all employees, and they donated 3,545 hours (2015:11,301). 2,484 employees also volunteered in their own time and have raised a further £46,208 for community investment purposes.

No political donations were made.

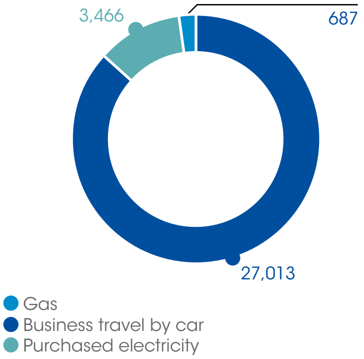
When setting incentives, the Remuneration Committee takes account of all implications, including the need to avoid inadvertently motivating inappropriate behaviour. In setting performance targets account is taken of ESG risks. Details of the bonus scheme are set out in the bonus section of the statement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

Carbon reporting

We have reported on the carbon emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Our emissions data has been calculated in line with the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard, and we have used emissions factors from the UK Government's Greenhouse Gas Conversion Factor Repository and the International Energy Agency ('IEA'). The emissions data covers our operations in the UK, Poland, the Czech Republic, Hungary, Slovakia, Mexico, Romania, Bulgaria and Lithuania. Limited emissions data are available from our digital markets. However, we are working to bring reporting in line with our Environmental Management System. Where available data is incomplete, we have extrapolated data.

		Tonnes CO$_2$e				
Carbon emissions sources	Travel & utilities	2013	2014	2015	**2016**	% change
	Gas	624	918	771	**687**	(10.9)%
Scope 1	Business travel by car	24,267	23,996	25,490	**27,013**	6.0%
Scope 2	Purchased electricity	5,280	5,116	4,040	**3,466**	(14.2)%
		30,171	30,030	30,301	**31,166**	2.9%
Scope 1 and 2	CO$_2$e emissions by customer	0.013	0.012	0.012	**0.012**	(0.3)%

Total CO$_2$ emissions 2016 (Tonnes CO$_2$e)



2016 carbon reporting outcomes

In 2016, our GHG emissions for scope 1 and 2 increased by 2.9%. When normalised by customer number, our scope 1 and 2 GHG emissions fell by 0.3% compared with 2015 and 12.7% compared with our base-year 2013.

Business travel by car increased by 6% due largely to the fact that data now includes car travel of agents in our Romanian and Hungarian markets where agents are employees of the business.

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

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

Annual Report and financial statements

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

Directors' responsibilities in relation to the Financial Statements

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

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

Responsibility statement

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

It is given by each of the directors as at the date of this report, namely: Dan O'Connor, Chairman; Gerard Ryan, Chief Executive Officer; Justin Lockwood, Chief Financial Officer; Tony Hales, Senior independent non-executive director; Jayne Almond, non-executive director; John Mangelaars, non-executive director; Richard Moat, non-executive director; and Cathryn Riley, non-executive director.

To the best of each director's knowledge:

a. the Financial Statements, prepared in accordance with the IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;

b. the Strategic Report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

c. the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statement of the directors in respect of the Annual Report and Financial Statements review process

The Board came to this view following a rigorous review process throughout the production schedule. The statements are drafted by appropriate members of the reporting and leadership teams and co-ordinated by the Investor Relations Manager to ensure consistency. A series of planned reviews are undertaken by the reporting team, leadership team and directors. In advance of final consideration by the Board, they are reviewed by the Audit and Risk Committee.

Disclosure of information to the auditor

In the case of each person who is a director at the date of this report, it is confirmed that, so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and he/she has taken all the steps that ought to have been taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern

The Board statement on its adoption of the going concern basis in preparing these Financial Statements is given on page 35.

The Board's review of the system of internal control

The Board is responsible for the Group's overall approach to risk management and internal control and, on the advice of the Audit and Risk Committee, has reviewed the Group's risk management and internal controls systems for the period 1 January 2016 to the date of this Annual Report and Financial Statements, and is satisfied that they are effective.

By order of the Board

T Ellis

Trudy Ellis
Company Secretary

1 March 2017

> "Our goal has been to deliver simplification, fairness and shareholder alignment."
>
> **Cathryn Riley**
> Chair of the Remuneration Committee

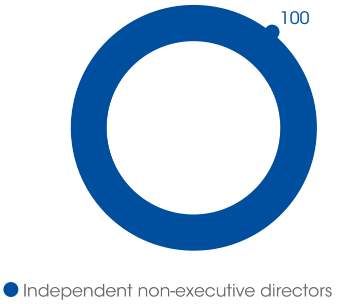
Dear shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2016 on behalf of the Board. This remuneration report is split into two sections:

- Our new Directors' Remuneration Policy ('2017 Policy') which is preceded by a table on pages 74 and 75 summarising changes made from the outgoing policy; and
- The Annual Remuneration Report providing detail of amounts paid during the reporting year including incentive outcomes.

On behalf of the Committee I would like to thank those shareholders who took the time to provide feedback during the consultation process on the direction of our 2017 Policy.

Remuneration Committee composition (%)



Committee members

Cathryn Riley – Chair and independent non-executive director

Tony Hales – Senior independent non-executive director

Jayne Almond – Independent non-executive director

Richard Moat – Independent non-executive director

2016 objectives

- Thorough review of Directors' Remuneration Policy ahead of shareholder vote at the 2017 AGM.
- Review and simplify long-term incentives in light of expiry of the Performance Share Plan ('PSP') in 2017.
- Re-tender of independent remuneration advisors.

2016 progress

- 2017 Policy designed to support our strategic priorities, taking into account shareholder feedback and evolving best practice.
- Extensive engagement with shareholders during the remuneration policy consultation process.
- Simplification of the existing incentive framework, including a new PSP.
- Appointment of Willis Towers Watson as independent remuneration advisor to the Committee.

2017 objectives

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

Overview

Role

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

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

Composition

The Committee comprises four independent non-executive directors and the quorum for decision making is two members.

Business context – 2016 performance

In 2016 we have faced a number of operational and regulatory challenges which have impacted the business, our financial performance and the experience of shareholders. The Committee has been cognisant of this during both the policy review process and in considering the remuneration outcome for our executive directors in respect of performance in 2016.

Our operational performance and the financial review of 2016 is discussed on pages 24 to 35 and includes some of the key financial metrics that we use to incentivise executive directors to deliver our strategy, including profit before tax, revenue less impairment and earnings per share ('EPS'). Headlines include:

- profit before tax of £92.6 million which is lower than 2015 reflecting lower home credit profit and higher investment in IPF Digital offset partially by a positive FX impact;
- revenue less impairment of £575.9 million being higher than 2015 due to the larger receivables balance; and
- EPS decreased to 30.2 pence from 37.1 pence in 2015 as a consequence of the reduction in profit.

Incentive outcomes for 2016

The 2016 incentive outcomes reflect the performance picture outlined above and the recent erosion of shareholder value as a consequence of proposed revisions to consumer credit regulation in Poland. Consequently the portion of 2014 Deferred Share Plan ('DSP') matching awards and the portion of Performance share Plan ('PSP') awards contingent on total shareholder return ('TSR') performance will lapse in full.

Annual bonus – 50% of total opportunity in 2016 was subject to the achievement against target of profit before tax and 50% on the achievement of personal objectives. The award for achievement of personal objectives being conditional upon the achievement of the financial measures.

In line with guidance provided previously, profit was expected to be below 2015 and targets for 2016 were calibrated accordingly. Against the agreed target range, profit before tax of £92.6 million was above threshold but below the target level. However, taking into account the aforementioned recent value erosion the Committee exercised its discretion to limit the pay-out to the threshold opportunity of 20% of maximum in respect of both financial and non-financial performance. This resulted in a total bonus payable of 16% of maximum opportunity, with 10% achieved in respect of financial measures and 6% achieved in respect of personal performance. Further narrative regarding performance against personal objectives set are on page 85. Under the DSP, two thirds of bonus is payable in shares and deferred for three years.

Long-term investment plan ('LTIP') – the portion of 2014 DSP matching awards and 2014 PSP awards contingent on TSR performance will lapse in full. The remaining two-thirds of those awards were contingent on EPS and revenue less impairment growth in the financial years 2014, 2015 and 2016 as follows:

- 1/3 on cumulative EPS growth performance of 6% to 15% p.a. (actual achieved 6.57% p.a.); and
- 1/3 on growth in revenue less impairment performance of 5% to 12% p.a. (actual achieved 6.42% p.a.)

As a consequence of EPS and growth in revenue less impairment being above threshold 23.29% of the 2014 DSP matching share awards and 2014 PSP awards have vested (see page 86 for details).

Overall this has resulted in a single figure for remuneration for 2016 which is 36% lower than 2015 which the Committee feels is appropriate and balances the Company results and shareholder experience.

Activities in 2016

Treatment of leavers

David Broadbent and Adrian Gardner resigned from the Board in February 2016 and September 2016 respectively. In accordance with the Company's remuneration policy, the Committee took David Broadbent's long service and significant contributions into account and exercised its discretion to permit him to retain his existing share awards on a pro rata basis. All existing awards in respect of Adrian Gardner lapsed in full on cessation of his employment. Neither of the former executive directors received any incentive payment in respect of 2016. Further details including the rationale for the respective treatment are set out in the Annual Remuneration Report.

Supporting our business needs and strategy with a revised Directors' Remuneration Policy

During the year the Board has continued to embed the Group strategy to deliver growth and returns in a changing consumer, regulatory and competitive environment. As described earlier on pages 10 to 11, we have taken an approach to our strategy which reflects the fact that our operations are at different stages of maturity. In the context of this evolved strategy, we reviewed our remuneration policy to ensure that we continue to have the right incentives to support its delivery.

The Committee determined during the course of the policy review that there was a need to make changes to the current executive director remuneration framework to facilitate simplification, to increase its alignment with shareholder interests and to place more focus on financial business priorities.

Shareholder engagement

Before any changes to the 2017 Policy were finalised, the Committee consulted with our major shareholders and their representative bodies regarding our proposals. Strong support was noted for:

- removal of matching awards;
- extension of the holding period;
- a decrease in the weighting of personal objectives for the annual bonus; and
- increased simplicity.

We also listened to areas of concern and included in our final policy changes:

- mandatory annual bonus deferral of 50%; and
- amended annual bonus and PSP opportunity levels to balance the lost opportunity of the matching award against sensitivities regarding increases in opportunity.

Further to these changes, the 2017 Policy being presented to shareholders for approval reduces both on target and total incentive opportunity from the levels under our current policy ('2014 Policy') from 258% to 255% (target) and from 292% to 290% (maximum).

Both the Committee and Board strongly believe that the final proposals maintain a strong pay-for-performance relationship and are designed to best serve the Company's future ambitions by incentivising our executive directors and the wider senior management team to return value to you, our shareholders.

New remuneration policy – key changes

Annual bonus

- Reduction of target level from 80% to 65% without any increase in maximum opportunity. Removal of threshold.
- An increase in the weighting of financial and strategic metrics versus personal objectives to 80:20 (from 50:50).
- A reduction in the bonus deferral to 1/2 of the bonus earned (2/3 previously).

Deferred Share Plan – matching award

- Removal of the plan.

Performance Share Plan

- An increase in the annual award level to 190% of base salary (125% previously) to offset the lost opportunity from the removal of matching awards.
- Extension of the mandatory holding period of vested awards to two years (previously 50% was available to exercise immediately and 50% after a further year).
- Re-weighting of the performance metrics such that TSR shall now account for 50% (33% previously) with cumulative EPS and revenue less impairment 25% respectively (33% each previously).
- An increase in the exceptional opportunity to 250% (from 150% currently), which will be reserved for genuinely exceptional circumstances such as recruitment.

Pension

- Contributions will be reduced from 20% to 15% of base salary in respect of any new appointments to align with the wider workforce.

Key decisions for 2017

The proposed 2017 Policy applies to awards granted from its approval at the AGM onwards. Under this policy the Company can honour all pre-existing incentive award obligations and commitments that were entered into before the 2017 Policy takes effect and remain eligible to vest subject to their original terms.

The salary of the CEO will remain unchanged for 2017 at £505,000 in line with expected market practice and shareholder expectations. It is intended that the annual bonus for 2017 will be operated under the 2017 Policy. In order to facilitate a smooth transition between policies, the first PSP awards under the 2017 Policy will be made in 2018. The PSP awards in 2017 will be made under the 2014 Policy, prior to the AGM, at the 2014 Policy award level of 125% of base salary for the executive directors. This is to avoid any potential double counting in respect of the withdrawal of the DSP matching award and introduction of a higher PSP opportunity. The final DSP matching award will be made to executive directors on two-thirds of the bonus earned in respect of 2016 performance. Subject to the approval of the 2017 Policy at the 2017 AGM, no further DSP matching awards will be granted.

In addition, we are delighted that Justin Lockwood was appointed as Chief Financial Officer on 23 February 2017, having been with the business as Head of Finance for the last seven years and most recently covering as Interim Chief Financial Officer following Adrian Gardner's departure. The Committee approved Justin's remuneration package and set his base salary at £260,000. This is lower than Adrian Gardner's base salary (£319,000) and reflects his level of experience and requirement to develop in the role. As a result and in accordance with the 2014 and 2017 Policies, the Committee expect to review his salary in the upcoming years and may consider increases beyond those typically granted to the wider workforce to achieve the desired salary level commensurate with the role, subject to performance.

Next Steps

At the 2017 AGM, to be held on 3 May 2017, the 2017 Policy will be put to a binding shareholder vote, the 2014 Policy having received 97.1% approval at the 2014 AGM; and the Annual Remuneration Report will be put to an advisory shareholder vote.

I very much hope you will support our 2017 Policy along with our 2016 Directors' Annual Remuneration Report at the AGM. I will be available at the meeting to answer any questions about the work of the Committee.

Cathy Riley

Cathryn Riley
Chair of the Remuneration Committee

1 March 2017

Directors’ Remuneration Policy

Introduction

The Committee presents the 2017 Policy which will be put to shareholders for a binding vote at the AGM to be held on 3 May 2017. This 2017 Policy applies to awards granted from its approval at the AGM onwards. It is a provision of the 2017 Policy that the Company can honour all pre-existing incentive award obligations and commitments that were entered into before the 2017 Policy takes effect. These awards remain eligible to vest subject to their original terms.

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

Subject to shareholder approval, the effective date of the 2017 Policy will be 3 May 2017. The intention of the Committee is that the 2017 Policy will remain in place for three years from the date of its approval.

The table below summarises the substantive changes to our 2014 Policy.

Policy changes table

Current policy	Proposed changes	Rationale
Annual bonus		
Opportunity (% base salary) • Maximum – 100% • On target – 80% • Threshold – 20% Performance metrics • 50% profit before tax • 50% personal Deferral • 1/3 in cash and 2/3 in deferred shares • Deferred shares are released after 3 years (subject to clawback)	Opportunity (% base salary) • Maximum – 100% • On target – 65% • Threshold removed Performance metrics • 80% balanced scorecard with greater emphasis on financial metrics • 20% personal Deferral • 1/2 in cash and 1/2 in deferred shares • Deferred shares are released after 3 years (subject to clawback)	• Increased performance range requiring greater stretch for maximum bonus • A balanced scorecard of financial metrics better aligns to business KPIs • Financial metrics aid transparency • Bonus opportunity and deferral practice more in line with market practice • To better reflect business KPIs
Deferred Share Plan (DSP) – Matching Award		
Opportunity (% base salary) • 1:1 match on deferred shares Performance metrics • Absolute TSR – 1/3 • Cumulative EPS growth – 1/3 • Growth in revenue less impairment – 1/3 Performance period • Three years	• Retire the Matching Award	• Aid simplicity and optimise perceived value of remaining incentives • Prevent duplication with the PSP and enhance pay for performance relationship • Better reflect shareholder preference and market practice

Policy changes table

Current policy	Proposed changes	Rationale
Performance Share Plan (PSP)		
Opportunity (% base salary) • Policy – 125% • Exceptional – 150%	Opportunity (% base salary) • Policy – 190% • Exceptional – 250%	• Offset removal of DSP matching opportunity • Provide more competitive award levels • Increase in TSR weighting provides closer investor alignment • Holding period encourages longer-term behaviours and an investor mind-set
Performance metrics • Absolute TSR – 1/3 • Cumulative EPS growth – 1/3 • Growth in revenue less impairment – 1/3	Performance metrics • Absolute TSR – 1/2 • Cumulative EPS growth – 1/4 • Growth in revenue less impairment – 1/4	
Performance period • Three years • Additional 12 month holding period for 50% of shares	Performance period • Three years • Plus additional two year holding period	
Pension		
• Company contribution • 20% of base salary	• Company contribution • 15% of base salary for new appointments	• Align with policy for other employees

Notes to the policy change table

- Although each of the annual bonus metrics will pay out independently, the Committee will set a threshold profit before tax target that must be achieved before any other metrics are assessed.
- Although the rules of the new PSP shall permit annual grants up to an individual limit of 250% of base salary this will be reserved for genuinely exceptional circumstances, as determined at the Committee's discretion. It would expect to consult with significant shareholders if awards were routinely made above normal levels and would in all cases make a comprehensive retrospective disclosure outlining the Committee's rationale in the Annual Remuneration Report following any such award being made.
- Although the Committee recognise that absolute TSR is an unusual (but not unprecedented) metric to use, identifying comparator companies with a similar shareholder, industry and geographical profile to the Group remains a challenge. The Committee therefore continues to believe that an absolute TSR metric is the most appropriate metric for assessing value creation and thereby aligning executive and shareholder interest. However, the Committee will also compare the Company's absolute TSR performance to comparator groups considered appropriate at the point of vesting to ensure that the TSR achievement is truly reflective of business performance.
- A new DSP will be presented to shareholders at the AGM to be held on 3 May 2017, consistent with the terms of the 2017 Policy, which removes the ability to grant matching awards. A new PSP will also be presented as the existing PSP expires in July.
- Overall, the changes in the policy described above brings a slight reduction to on target and maximum pay opportunity from 258% to 255% for on target and 292% to 290% for maximum.

How pay is aligned to strategy

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

	Objective	KPI	Incentive scheme
Financial	Deliver Group profit before tax in line with expectations	Group profit before tax	Annual bonus
	Grow revenue	Revenue less impairment	PSP
	Manage European markets to optimise returns	Return as % of capital	Annual bonus
Non-financial	Grow the number of IPF Digital markets	Strategic priority	Annual bonus
Long-term strategic	Deliver sustainable growth	Revenue less impairment, Group profit before tax and EPS	Annual bonus and PSP
	Deliver value to shareholders	Absolute TSR	PSP

2017 Policy

Executive directors

The remuneration of executive directors is determined by the Committee, taking into account Group performance, individual performance and competitive market practice as well as the pay and conditions of our employees and the importance attached to the retention and attraction of high calibre individuals. The total annual remuneration of executive directors comprises base salary, a cash bonus and deferred bonus shares granted under LTIP pension provisions and other benefits.

2017 Policy table – executive directors

How the element supports our strategic objectives	Operation of the element	Maximum potential value	Performance metrics, weighting and time period
Base salary			
To attract and retain talent capable of delivering the Group's strategy. Rewards executive directors for their performance in the role.	Base salary is paid in twelve equal monthly instalments during the year. Salaries are normally reviewed annually and any changes are generally effective from 1 April. Salary levels are set taking into account role, experience, responsibility and performance, both of the individual and the Company, and also taking into account market conditions and the salaries for comparable roles in similar companies.	Normally, salary increases take into account salary reviews across the Group and are usually in line with increases awarded to UK employees. By exception, higher awards may be made at the Committee's discretion to reflect individual circumstances. For example: • changes to role which increase scope and/or responsibility; • development and performance in the role; and • responding to competitive market pressures. There is no prescribed maximum increase as per the 2017 Policy.	None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries annually.
Pension			
To provide retirement funding.	The Company operates a stakeholder scheme; at the discretion of the Committee, this may be paid as a cash allowance. The Company has closed its defined benefit scheme to new members and future accrual.	Company contribution is 15% of base salary.	None.
Benefits			
To provide market-competitive benefits that support the executive directors to undertake their role.	The Company pays the cost of providing the benefits on a monthly, annual or one-off basis. All benefits are non-pensionable.	The standard benefits package includes: • life assurance of 4x salary; • car allowance; • long-term disability cover; • private medical cover for executive director and immediate family; • annual medical; and • ability to participate in the Company's SAYE Scheme ('SAYE')and any other all-employee share schemes on the same terms as other employees. Additional benefits may also be provided in certain circumstances, which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Committee.	None.

2017 Policy table – executive directors

How the element supports our strategic objectives	Operation of the element	Maximum potential value	Performance metrics, weighting and time period
Annual bonus			
To motivate and reward sustainable Group profit before tax and the achievement of specific personal objectives linked to the Company's strategy.	Measures and targets are set annually and pay-out levels are determined by the Committee after the year end, based on performance against those targets. The Committee may, in exceptional circumstances, amend the bonus pay-out should this not, in the view of the Committee, reflect overall business performance or individual contribution. Half of the total bonus amount is deferred for three years in Company shares through the DSP. The remaining half is paid in cash. Payments are made around three months after the end of the financial year to which they relate. There are provisions for clawback adjustments on the occurrence of certain events (see page 80 for details).	On target opportunity: 65% of base salary. Maximum opportunity: 100% of base salary.	Performance is measured over the financial year. Performance is assessed using the following criteria: • typically 80% is based on achievement of financial and strategic measures; and • typically 20% is based on achievement of personal objectives linked to achievement of Company strategy. Although each of the annual bonus metrics could pay out independently, the Committee will set a minimum threshold profit target before any other metrics are assessed.
Deferred Share Plan (DSP)			
To strengthen the link between short and longer-term incentives and the creation of sustainable long-term value.	Half of the total bonus amount is subject to compulsory deferral for three years in Company shares without any matching. The matching element under the 2014 Policy will no longer be operated. Following the vesting of awards, executive directors receive an amount (in cash or shares) in respect of the dividends paid or payable between the date of grant and the vesting of the award on the number of shares that have vested. The DSP has provision for malus and clawback adjustments on the occurrence of certain events (see page 80 for details). Awards may also be adjusted in the event of a variation of capital, in accordance with the plan rules.	Half of the total bonus amount received during the year.	None.

2017 Policy table – executive directors

How the element supports our strategic objectives	Operation of the element	Maximum potential value	Performance metrics used, weighting and time period applicable
Performance Share Plan (PSP)			
To motivate and reward longer-term performance, and support shareholder alignment through incentivising absolute shareholder value creation.	Annual grant of awards, generally made as nil-cost options over a specific number of shares subject to meeting specified performance targets. The Committee has discretion to decide whether and to what extent targets have been met, and if an event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them so long as the adjustment does not make them materially less difficult to satisfy. Awards may also be adjusted in the event of a variation of capital, in accordance with the plan rules. Executive directors will be required to hold any shares acquired on vesting (net of any shares that may need to be sold to cover taxes) for a two-year period starting on the date of vesting. The PSP has provisions for malus and clawback adjustments on the occurrence of certain events (see page 80 for details).	In normal circumstances, annual award levels for executive directors shall be equivalent to 190% of base salary at the time of grant. The rules of the PSP plan permit annual grants up to an individual limit of 250%. Although the Committee shall retain discretion to make awards up to this level, it would expect to consult with significant shareholders, if awards were routinely made above normal levels and would in all cases make a comprehensive retrospective disclosure outlining the Committee's rationale in the Annual Remuneration Report following any such award being made. Vesting of PSP awards is dependent on service and performance conditions. 25% of the award vests at threshold performance in respect of the performance conditions, with straight-line vesting to maximum.	Service and performance conditions must be met over three-year periods. Performance is assessed against three independently measured metrics that are weighted as follows: • 1/2 absolute TSR performance; • 1/4 cumulative EPS growth; and • 1/4 growth in revenue less impairment. The Committee will compare the Company's absolute TSR performance to comparator groups considered appropriate at the point of vesting. The targets are set by the Committee, and targets will be set out in the Annual Remuneration Report of the relevant year. A six-month averaging period is used for calculating TSR.
Shareholding requirement			
To support alignment with shareholder interests.	Executive directors are expected to acquire a beneficial shareholding over time. Shares which have vested unconditionally under the Company's share schemes will be taken into account with effect from the date of vesting (but not before). 50% of all share awards vesting under any of the Company's share incentive schemes (net of exercise costs, income tax and social security contributions) must be retained until the shareholding requirement is met.	The current shareholding requirement for executive directors is 200% of base salary.	None

Non-executive directors

The Board reviews non-executive directors' fees periodically in the light of fees payable in comparable companies and the importance attached to the retention and attraction of high calibre individuals as non-executive directors. Non-executive directors receive no other benefits and take no part in any discussion or decision concerning their own fees. The Committee reviews the Chairman's fees. Fees were increased last on 1 October 2013 for the Chairman and 1 January 2014 for the non-executive directors. No increases to fees are proposed for non-executive directors or the Chairman in 2017.

2017 Policy table – non-executive directors

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

Notes to the 2017 Policy table

Performance measures and targets

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

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

Malus and clawback

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

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

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

Discretions

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

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

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

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

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

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

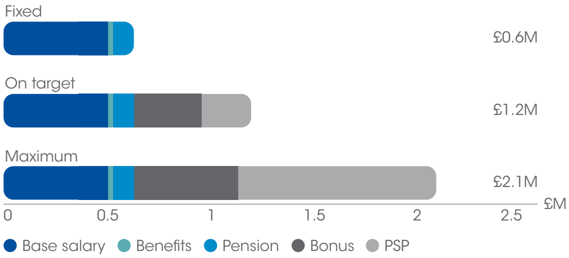
Illustrations of total remuneration opportunity

We have set out an illustration of the 2017 Policy as outlined in the table on pages 76 to 78.

The chart provides an illustration of the proportion of total remuneration made up by each component of the remuneration 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 chart is indicative, as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows:

CEO



- **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. The vesting assumption for the PSP.
- **Maximum:** fixed remuneration plus full pay-out of all incentives (i.e. 100% of salary in annual bonus, 190% of salary in PSP).

Approach to recruitment remuneration

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

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

For external appointments, it may be necessary to buyout an individual's awards from a previous employer. The Committee will seek to minimise the need for such arrangements and will aim to recruit executive directors subject to the policy maximum defined above. However, to be able to attract the required calibre of talent, we may offer additional cash and/or share-based elements when we consider these to be in the best interests of the Company. In doing so, the Committee would ensure that any such payments have a fair value no higher than that of the awards forgone including payments for any benefits in kind, pension and other similar allowances, and reflect the delivery mechanism (i.e. cash, shares and/or options), time horizons and expected value (i.e. likelihood of meeting any existing performance criteria). Replacement share awards, if used, will be granted using existing share plans. Wherever possible, any new arrangements will be tied into the achievement of Group targets in either the annual performance bonus or long-term incentives, or both. Full details will be disclosed in the next Directors' Remuneration Report following the date of recruitment, which will provide explanations in relation to the amount and delivery structure of the awards made for the purposes of recruitment.

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

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

As noted in the 2017 Policy table on pages 76 to 78, 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, although Gerard Ryan remains an exception to this, having been appointed on a 12-month rolling contract prior to this change in policy. Justin Lockwood has been appointed on a 6 month rolling contract.

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

Our Articles of Association require that all directors retire from office if they have not retired at either of the preceding two AGMs. In any event, at the 2017 AGM, all directors will be standing for re-election in compliance with the UK Corporate Governance Code. Service agreements are available for inspection at the Company's registered office. Service agreements and letters of appointment are not reissued when base salaries or fees are changed.

Directors' service agreements and letters of appointment continued

The dates of directors' service agreements who served as directors during the year and letters of appointment are:

Executive director	Date of service agreement
Gerard Ryan	January 2012
Justin Lockwood	February 2017
Non-executive director	**Date of appointment**
Tony Hales	July 2007
Cathryn Riley	February 2014
Dan O'Connor	January 2015
Jayne Almond	June 2015
Richard Moat	July 2012
John Mangelaars	July 2015
Former directors	
Adrian Gardner[1]	January 2014
David Broadbent[2]	March 2007

1. Adrian Gardner resigned from the role of Chief Financial Officer on 21 September 2016 and left the Company on 30 September 2016.
2. David Broadbent resigned from the role of Chief Commercial Officer on 23 February 2016 and left the Company on 7 March 2016 by reason of redundancy.

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, age, service, health or other circumstances that may be relevant.

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

For all other leavers, outstanding PSP awards will lapse.

Differences in remuneration policy for all employees

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

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

Consideration of employment conditions elsewhere in the Company

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

Policy on executive directors holding external appointments

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

Consideration of shareholder views

When determining remuneration, the Committee also takes into account the guidelines of investor bodies and shareholder views. The Committee considers these to be of great importance and seeks to engage regularly with our major shareholders prior to making any material decisions on pay, as it has done during the process of reviewing our new 2017 Policy.

Annual Remuneration Report

The following report sets out how the Directors' Remuneration Policy, approved at the 2014 AGM (the '2014 Policy'), was applied during the year ended 31 December 2016. The full 2014 Policy can be found in the Directors' Remuneration Report on pages 72 to 78 of the 2015 Annual Report and Financial Statements, which is available at www.ipfin.co.uk.

The Remuneration Committee reviews the senior management remuneration framework annually and considers whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, current external guidelines and a range of internal factors including the Remuneration Policy and pay arrangements throughout the rest of the Group. The table below shows the performance measures used in current incentive schemes and how these align with the key performance indicators detailed on pages 20 to 21.

Single figure for total remuneration (audited information)

The following table sets out the single figure for total remuneration for directors for the financial years ended 31 December 2015 and 2016.

	Salary/fees £'000		Benefits £'000		Bonus[1] £'000		LTIP £'000		Pension £'000		Total £'000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**[2]	2015[3]	**2016**	2015	**2016**	2015
Executive directors												
Gerard Ryan	**505**	504	**25**	25	**81**	227	**62**	352	**89**	89	**762**	1,197
Adrian Gardner[4]	**239**	319	**17**	23	**–**	101	**–**	–	**42**	56	**298**	499
David Broadbent[5]	**260**	331	**21**	23	**–**	83	**44**	239	**53**	63	**378**	739
Non-executive directors												
Dan O'Connor	**200**	152	**–**	–	**–**	–	**–**	–	**–**	–	**200**	152
Tony Hales[6]	**75**	75	**–**	–	**–**	–	**–**	–	**–**	–	**75**	75
Jayne Almond	**55**	29	**–**	–	**–**	–	**–**	–	**–**	–	**55**	29
John Mangelaars[7]	**65**	25	**–**	–	**–**	–	**–**	–	**–**	–	**65**	25
Richard Moat[8]	**70**	59	**–**	–	**–**	–	**–**	–	**–**	–	**70**	59
Cathryn Riley[9]	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65

[1] Bonus payable in respect of the financial year including any deferred element at face value at date of award. Further information about how the level of 2016 award was determined is provided in the additional disclosures section below.

[2] The value of awards included in the table for 2016 relates to the DSP matching award and PSP awards granted in 2014, the performance period for which was the three financial years ended 31 December 2016. This value also includes the anticipated value of dividend equivalents that will be payable in 2017. The awards have been valued according to an estimate based on expected vesting and the 1-month average share price to 31 January 2017. A different averaging period has been used from the basis for estimate used in the report for 2015 to give a better reflection of fair value, taking into account the Company's current share price. These estimated figures will be updated and based on the actual values of the awards for the relevant dates in next year's report. Further information about the level of vesting is provided in the additional disclosures section below.

[3] The value of awards included in the table for 2015 has been revised to reflect the actual value of awards vesting (as noted in footnote 2, above, an estimate of the value of these awards based on the 3-month average share price to 31 December 2015 was used in the 2015 report) and any dividend equivalents received in 2016 when the awards became exercisable.

[4] The amounts shown for 2016 reflect that Adrian Gardner resigned from the Board effective from 21 September 2016 and left the Company on 30 September 2016.

[5] The amounts shown for 2016 reflect that David Broadbent resigned from the Board on 23 February 2016 and left the Company on 7 March 2016 by reason of redundancy. The figure quoted for his salary/fees includes £198,473 as compensation for early termination

[6] Tony Hales is Senior Independent Director. In addition to his base fee £55,000, he was paid a fee of £20,000 per annum for this additional responsibility.

[7] John Mangelaars chaired the Technology Committee during 2016. In addition to his base fee of £55,000, he was paid a fee of £10,000 per annum for this additional responsibility.

[8] Richard Moat chaired the Audit and Risk Committee during 2016. In addition to his base fee of £55,000, he was paid a fee of £15,000 per annum for this additional responsibility.

[9] Cathryn Riley chaired the Remuneration Committee during 2016. In addition to her base fee, of £55,000 she was paid a fee of £10,000 per annum for this responsibility.

Additional disclosures for single figure for total remuneration table

Base salary

As reported last year, there were no increases in the base salaries of executive directors in 2016, in line with a wider salary freeze for all employees based in the UK. There will be no increase to the base salary of the Chief Executive Officer in 2017, in line with expected market practice and shareholder expectation.

Benefits

The benefits provided to the executive directors in 2016 included: private healthcare, life assurance, annual medical, long-term disability cover and a cash allowance in lieu of a company car. None of the executive directors received total taxable benefits exceeding 8% of salary in 2016, and it is not anticipated that the cost of benefits provided will exceed this level materially during the period in which the 2017 Policy shall apply.

Determination of 2016 annual bonus

The maximum opportunity for the Chief Executive Officer was 100% of salary (80% of salary for on target performance and 20% of salary for threshold performance). Both the Chief Commercial Officer and the Chief Financial Officer left the Board during the course of the year and neither were eligible for an annual bonus award in respect of 2016. As a result, details of their personal objectives and outcomes against these are not included in this report. During 2016, a balanced scorecard approach was used for the annual bonus whereby 50% of the bonus was calculated on profit before tax and, subject always to a minimum profit threshold, the remaining 50% calculated against stretching personal performance objectives. The award for achievement of personal performance objectives is conditional upon achievement of the profit before tax element (i.e. the maximum achievable on the personal performance objectives cannot exceed the amount achieved under the profit before tax element).

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 is assigned a multiplier which determines the maximum bonus payable as shown in the table below.

Performance Rating	Ineffective	Partially effective	Effective	Extremely effective	Outstanding
Multiplier[1]	0%	27%	60%	80%	100%

[1] Applied to the maximum bonus payable in respect of personal objectives.

Group Profit before tax objectives

Group profit before tax 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 profit before tax targets (adjusted for FX) and level of performance achieved in 2016 were as follows:

	Threshold	Target	Maximum	Achievement	Bonus pay-out
Target (£)	£92.3 million	£99.0 million	£105.4 million	£92.6 million	Discretion downwards to threshold
Bonus outcome (%)	10%	40%	50%	Between threshold and target	10%

Notwithstanding the level of Group profit before tax was above the threshold target, taking into account the recent value erosion in the company share price the Committee exercised its discretion to adjust the bonus downwards such that the pay-out would be limited to the threshold opportunity (10% of maximum).

Personal objectives

As a consequence of the Committee's exercise of negative discretion, the maximum pay-out under the personal objectives element is also limited to 10%. The table below shows the objectives that were set for the CEO in 2016 and achievement against them.

Category	Objectives	Results
Results	Effective communication of 2015 results	• Communicated 2015 results in line with expectations
Strategy	Refresh and agree Group strategy and successfully implement it	• Strategy evolved to focus on optimising returns in our European home credit businesses and grow IPF Digital and Mexico home credit • Successful roll out of IPF Digital into Spain and Mexico
Regulatory	Effective management of regulatory issues	• Successfully delivered a new product offering in Poland to comply with the new rate cap introduced in March 2016. The financial impact was within the expected range
Sales and Service	Delivery of agreed strategy	• Operational issues in Mexico, partially as a consequence of new branch openings in the first half of the year, had an adverse impact on results • Cost efficiency improvements achieved in European home credit businesses through the roll out of a new sales and service organisation structure
Technology	Successful implementation of agreed IT deliverables	• Roll out of MyProvi agent mobile technology app
People	Further embed ethics programme Delivering engagement survey results consistent with prior years	• •Continued development and implementation of ethics programme across the Group • •Engagement scores consistent with previous years despite large organisational changes

Having reviewed the Chief Executive Officer's performance against his personal objectives and in the context of the challenges faced by the business in 2016, the Committee determined an effective performance rating. Consequently the bonus pay-out in respect of personal objectives is 6% calculated as follows:

- Maximum available (10%)
- Application of effective rating multiplier (60%)
- Bonus pay-out for personal objectives = 6% (10% x 60%)

Bonus outcome for 2016

The Committee awarded a bonus to the Chief Executive Officer of the amount shown below for the year ended 31 December 2016.

	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 2020 £'000	Total value of 2016 annual bonus £'000	Cash and DSP shares award as a percentage of maximum bonus available
Gerard Ryan	10%	6%	27	54	81	16%

The bonus is payable one-third in cash, and two-thirds 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 80.

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.

At the discretion of the Committee, this may be paid as a cash allowance.

The Company's contributions in respect of Gerard Ryan during 2016 amounted to £88,752, all of which was paid as a cash allowance.

The Company's contributions in respect of Adrian Gardner during 2016 amounted to £42,047, all of which was paid as a cash allowance.

David Broadbent was a member of the final salary section of the Pension Scheme until 1 April 2006 when he began to accrue benefits as a member of the cash balance section. He ceased to be a member of the cash balance section on 31 July 2008 and became a deferred member of the Pension Scheme. The Company's contributions in respect of David Broadbent during 2016 amounted to £53,258, of which £10,000 was paid into pension arrangements and £43,258 was paid as a cash allowance. Details of David Broadbent's entitlements under both sections of the Pension Scheme are in the table opposite:

David Broadbent – final salary

	£
Accrued pension at 31 December 2016	14,970
Accrued pension at 31 December 2015	14,985
Increase in accrued pension during the year (net of inflation)	0
Director's contributions in 2016	0

David Broadbent – cash balance

	£
Accrued cash balance lump sum at 31 December 2016	106,721
Accrued cash balance lump sum at 31 December 2015	106,828
Increase in cash balance lump sum during the year (net of inflation)	0
Director's contributions in 2016	0

David Broadbent was aged 48 at the end of the year. He became a deferred member of the Pension Scheme on 1 August 2008.

Notes:

1. The cash balance entitlement has been calculated in line with our current understanding of David Broadbent's accrued benefits.
2. The change in accrued pension and accrued cash balance lump sum, net of inflation, during the year reflects the fact that the relevant inflation benefit revaluation for the year uses CPI over the year to September 2015, which was -0.1% (i.e. a reduction).
3. Normal retirement age is 65 for David Broadbent. Early retirement can be taken from age 55 and the accrued final salary pension will then be reduced to take account of its early payment.
4. As David Broadbent did not accrue any benefits within the Pension Scheme during the year to 31 December 2016, the value of his Pension Scheme benefits under the disclosure requirements for large and medium-sized quoted companies is zero.

Long-term incentives

Awards estimated to vest during 2017 (included in 2016 single figure)

The LTIP amount included in the 2016 single figure relates to the DSP matching shares and PSP awards granted in 2014. The performance achieved against the performance targets is shown below:

DSP matching shares

Performance condition	Weighting	Threshold	Maximum	Achieved	Projected vesting
Absolute TSR growth[1]	1/3	30% TSR over 3 years	60% TSR over 3 years	(50%)	–%
Cumulative EPS growth[2]	1/3	6% p.a.	15% p.a.	7% p.a.	10%
Growth in revenue less impairment[2]	1/3	5% p.a.	12% p.a.	6% p.a.	13%
Total					23%

1. Based on TSR from 1 January 2014 to 31 December 2016.
2. Excludes impact of MCB acquisition.

PSP

Performance condition	Weighting	Threshold	Maximum	Achieved	Projected vesting
Absolute TSR growth[1]	1/3	30% TSR over 3 years	60% TSR over 3 years	(50%)	–%
Cumulative EPS growth[2]	1/3	6% p.a.	15% p.a.	7% p.a.	10%
Growth in revenue less impairment[2]	1/3	5% p.a.	12% p.a.	6% p.a.	13%
Total					23%

1. Based on TSR from 1 August 2014 to 31 December 2016.
2. Excludes impact of MCB acquisition.

As disclosed in the 2014 Policy, executive directors are expected to acquire a beneficial shareholding over time equivalent to a minimum of 200% of salary. 50% of all share awards vesting under any of the Company's equity incentive schemes (net of exercise costs, income tax and social security contributions) must be retained until the requirement is met. Executive directors' current holdings against the guideline are disclosed on page 90.

Awards granted during 2016

Awards were made in the financial year ending 31 December 2016 under the LTIP (PSP/CSOP), DSP and the SAYE. Detail of these awards is provided below:

	Number of PSP nil-cost options[1]	Number of CSOP options[2]	Face value[3] £	Percentage of base salary	End of performance period	Threshold vesting	Weighting	Performance conditions
Gerard Ryan	211,153	10,224	631,250	125%	31 December 2018	25%	1/3	Absolute TSR
						25%	1/3	Cumulative EPS growth
						25%	1/3	Growth in revenue less impairment
Adrian Gardner[4]	53,830	–	159,000	50%	31 December 2018	25%	1/3	Absolute TSR
						25%	1/3	Cumulative EPS growth
						25%	1/3	Growth in revenue less impairment

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

[2] The awards are options to acquire shares for their market value at the date of grant, being 293 pence per share.

[3] Valued using the average share price for the three days before the date of grant (23 March 2016), being 296 pence per share for the PSP options and the share price at the date of grant for the CSOP options, being 293 pence per shares. For information, for the CSOP options, the fair value was calculated to be £5,601 for £30,000 of options (being 18.7% of the grant date face value) at the date of grant using the Black-Scholes model.

[4] The awards granted to Adrian Gardner have lapsed as a result of him resigning from the Board in order to pursue an alternative business opportunity on 21 September 2016.

LTIP

In line with the 2014 Policy, executive directors were granted LTIP awards, structured as PSP and CSOP options, in March 2016. At the time of the 2015 annual report and financial statements were signed off, the Committee had yet to confirm the performance targets determined for the performance measures in respect of the 2016 LTIP awards. This was due to the uncertainty arising from significant legislative changes in Slovakia that came into force on 23 December 2015, and the introduction of a new cap on non-interest costs of credit in Poland, both of which were exceptional events on the Company. The Committee did, however, subsequently provide this information by way of a supplementary note issued on the 5 April 2016 and detail of the performance conditions is included below. The number of LTIP shares granted and the associated performance conditions are set out opposite.

Performance conditions

The Committee determined that in respect of 2016 LTIP awards an absolute pence range for EPS should be used as opposed to a cumulative annual growth percentage rate used in previous years. This was because the expected impact of the legislative changes in Slovakia and Poland would result in a negative cumulative annual EPS growth rate target, based on the revised budget. Therefore, it was considered more appropriate to express targets for 2016 in absolute terms. Targets are reviewed on an annual basis, and the Committee may return to setting growth targets in the future. EPS will be measured at constant (budget) FX rates. The previous target for EPS was a cumulative annual growth rate of 6% to 15% per annum. The new target of 98 to 110 pence is equivalent to 9% to 15.5% p.a. on reported, post-exceptional 2015 EPS. Awards granted during 2016 will vest as follows, with straight-line vesting between the points:

	Absolute TSR	Cumulative EPS growth	Growth in revenue less impairment
Weighting	1/3	1/3	1/3
Vested at threshold	25%	25%	25%
Threshold	30% over 3 years	98 pence	5% p.a.
Stretch (100% vesting)	60% over 3 years	110 pence	12% p.a.

DSP

In 2016, two-thirds of the annual bonus earned in respect of 2015 was deferred in shares and attracted performance-based matching shares on a one-for-one basis. There are no further performance conditions attached to the vesting of the deferred shares.

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

			Amount vesting		
	Date of award	Face value[1] £	Threshold performance (% of face value)	Maximum performance (% of face value)	End of performance period
Gerard Ryan	23 March 2016	Deferred: 143,831 Matching: 143,831	25%	100%	31 December 2018
Adrian Gardner [2]	23 March 2016	Deferred: 64,110 Matching: 64,110	25%	100%	31 December 2018

[1] The face value was calculated using the average share price for the three days before the day of grant of 282 pence.

[2] The matching awards granted to Adrian Gardner have lapsed as a result of him resigning from the Board in order to pursue an alternative business opportunity on 21 September 2016.

SAYE

As noted in the 2014 Policy, UK-based executive directors are entitled to participate in the Company's tax advantaged all-employee scheme. The executive directors did not participate in the SAYE with the results that no options were granted to them under the scheme in 2016.

Loss of office payments (audited information)

David Broadbent and Adrian Gardner resigned as directors of the Company during 2016. The arrangements in respect of their departure are summarised below.

Adrian Gardner

Adrian Gardner resigned as a director of the Company with effect from 21 September 2016 and left the Company on 30 September 2016.

He did not receive any bonus in respect of the 2016 financial year and awards made to him under the PSP, and CSOP and matching awards under the DSP granted to him during 2014, 2015 and 2016 lapsed in full.

He received £6,748 in respect of 5.5 days' accrued but untaken holiday.

Adrian was entitled to retain awards of deferred shares granted in 2015 and 2016 under the DSP which will vest on the normal vesting dates. He will be entitled to payments of dividend equivalent amounts on shares vesting under the DSP in accordance with the plan rules and 2014 Policy, under which these awards were made.

Other than the amounts and benefits disclosed above, Adrian was not eligible for any additional payments for loss of office.

David Broadbent

David Broadbent resigned from the Board on 23 February 2016 and left the Company on 7 March 2016 by reason of redundancy.

Pursuant to a settlement agreement made on 23 February 2016, he was entitled to receive: a sum of £412,809, which represented 12 months' pay in lieu of notice (salary £332,168) and contractual benefits including 12 months' car allowance (£16,000), life assurance contributions (£1,103), permanent health insurance contributions (£4,757) and employer pension contributions (£58,782) paid monthly in instalments (save for part of the March 2016 employer pension contributions which was paid directly into his personal pension plan). The payment in lieu of notice was subject to a pound for pound offset after the first six months if alternative employment (excluding one non-executive directorship) was secured during that period. As David did secure alternative employment, his monthly instalments were reduced from £34,367 to £12,448 from 1 September 2016 onwards. The total amount he was entitled to receive has reduced from £412,809 to £280,890.

In addition, he received £7,665 in respect of 6 days accrued but untaken holiday pay; a statutory redundancy payment of £9,025; and an annual bonus payment for 2015 of £82,836, paid fully in cash.

In accordance with the discretion reserved to it pursuant to the 2014 Policy, in light of his long service and significant contribution, the Committee exercised its discretion to permit David to retain share awards under the PSP, CSOP and matching awards under the DSP granted to him during 2013, 2014 and 2015. The awards will vest on their respective normal vesting dates, subject to achievement of the relevant performance conditions. The number of awards which vest will be reduced on a time pro rata basis based on the number of complete months from the date of grant of each award to 7 March 2016. If applicable he will receive a payment to reflect the value of dividends that would have been paid on any shares that vest in accordance with the plan rules.

It was agreed that David would remain in the Company's private medical scheme for 12 months from his leave date and be entitled to his accrued pension and cash balance under the International Personal Finance plc Pension Scheme in accordance with the plan rules. Additionally, £3,000 (plus VAT) was paid to his solicitors for independent legal advice provided in connection with his settlement agreement (as it is a legal requirement for such agreements to be enforceable). Outplacement assistance was also offered as part of the collective redundancy exercise.

Other than the amounts and benefits disclosed above, David was not eligible for any additional payments for loss of office.

Payments to past directors (audited information)

Other than the arrangements outlined above in respect of David Broadbent and Adrian Gardner's loss of office, no payments to any past directors were made during 2016.

Percentage change in Chief Executive Officer's remuneration

The table opposite shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2015 and 2016 compared with the percentage change in the average of each of those components of pay for a group of employees. The Committee has selected the UK senior management population plus the country boards (around 80 people) for this comparison, due to the structure of the remuneration package.

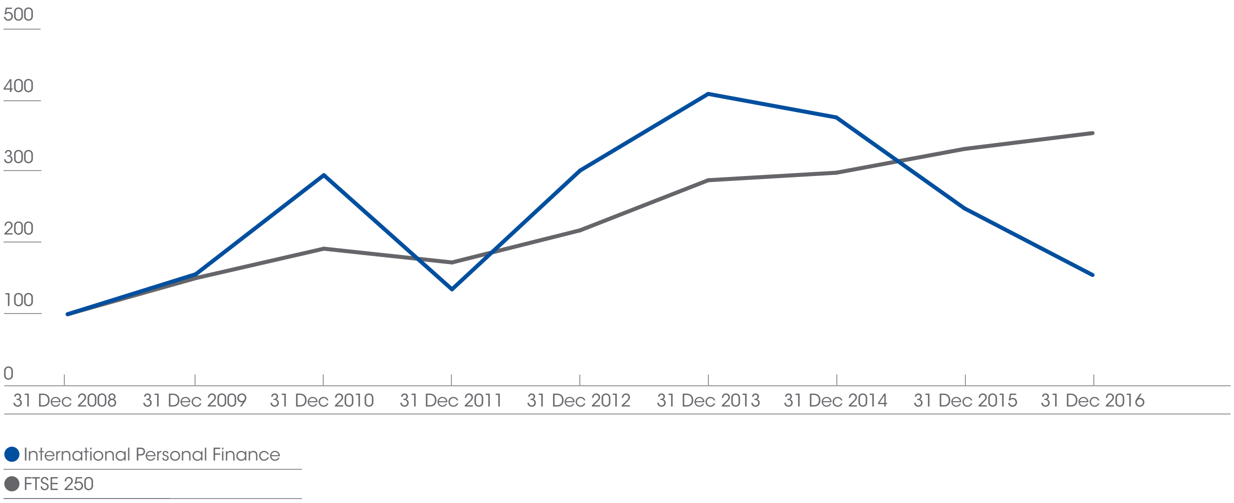
	CEO		All employees
	To 31 December 2016 £'000	Percentage change (2016 vs 2015)	Percentage change (2016 vs 2015)
Salary	505	–%	–%
Benefits	25	–%	0.4%
Bonus*	81	(64)%	57%

* Difference due to country boards achieving bonus in 2016 that received no bonus in 2015.

TSR Performance graph and table

The graph below compares the TSR of the Company with the companies comprising the FTSE 250 Index for the eight-year period ended 31 December 2016. This index was chosen for comparison because the Company is still a member of this index and has been for almost all the time since its shares were listed on 16 July 2007.

Total Shareholder Return vs FTSE 250



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

		CEO single figure of remuneration £'000	Annual bonus pay-out (as % maximum opportunity)	LTIP vesting (as % of maximum opportunity)
2016	Gerard Ryan	762	16%	23.3%
2015[1]	Gerard Ryan	1,197	45%	58.8%
2014	Gerard Ryan	2,172	74.2%	100%
2013	Gerard Ryan	1,037	100%	–
2012	Gerard Ryan[2]	889	80%	–
	John Harnett	718	–	
2011	John Harnett	943	67%	–
2010	John Harnett	952	80%	–
2009	John Harnett	603	–	–

1. The 2015 single figure has been restated to reflect the actual value of the LTIP on vesting (2015 figure used an estimated share price).
2. Gerard Ryan was appointed Chief Executive Officer on 1 April 2012. 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 plus share buybacks:

£million unless otherwise stated	**2016**	2015	Percentage change
Overall expenditure on pay	**177.7**	154.3	15.1%[1]
Dividend paid in the year	**27.4**	28.6	(4.2)%
Share buyback	**–**	50.0	–%

[1] The percentage increase at constant exchange rates is 11.2%.

Other directorships

Adrian Gardner was a non-executive director of Amdocs Limited during the 2016 financial year and was permitted to retain the fee received from this position.

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 2016 (together with interests held by his or her persons closely associated) are shown in the table below. A number of non-executive directors are below the shareholding requirements, which they are expected to build up within three years of appointment to the Board. Dan O'Connor, Jayne Almond and John Mangelaars are currently within this three year time period. When both Cathryn Riley and Richard Moat bought shares they bought sufficient to meet the shareholding requirement.

	Shares held	Options held							
	Owned outright	Unvested and subject to performance conditions	Unvested and subject to deferral only	Unvested and subject to continued employment	Vested but not yet exercisable and subject to continued employment	Vested and exercisable, but not yet exercised	Shareholding required (% salary/fee)	Shareholding (% salary/fee)[1]	Requirement met
Executive directors									
Gerard Ryan[2]	681,635	641,349	165,212	7,777	32,079	–	200	289	Yes
Non-executive directors[3]									
Jayne Almond	41,300	–	–	–	–	–	100	129	Yes
Tony Hales	75,000	–	–	–	–	–	100	235	Yes
John Mangelaars	–	–	–	–	–	–	100	–	No
Richard Moat	15,000	–	–	–	–	–	100	47	No
Cathryn Riley	14,795	–	–	–	–	–	100	46	No
Dan O'Connor	41,500	–	–	–	–	–	100	36	No
Former directors[4]									
Adrian Gardner	15,000	–	48,401	–	–	–	–	–	–
David Broadbent	207,989	121,638	77,343	–	15,858[5]	–	–	–	–

[1] Based on a share price of 172.3 pence, being the closing price on 30 December 2016.
[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 directors' fee within three years of appointment.
[4] The shares owned outright by former directors are as at the date of resignation from the Board.
[5] These shares held by David Broadbent are not subject to continued employment.

There were no changes to these interests between 31 December 2016 and 1 March 2017.

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

The current shareholding requirements for executive and non-executive directors are described on page 78.

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

Director	**Retail Bond as at 31 December 2016**
Cathryn Riley	**£28,800**

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

	Date of award	Awards held at 31 December 2015	Awarded in 2016	Exercised in 2016	Lapsed In 2016*	**Awards held at 31 December 2016**	Performance condition period	Share price date of grant (p)	Exercise price (p)	Exercise period
Gerard Ryan										
PSP	2 Mar 2012	135,223	–	(135,223)	–	**–**	2 Mar 2012 – 1 Mar 2015	247	–	2 Mar 2015 – 1 Mar 2022
PSP	1 Aug 2013	109,316	–	(32,079)	(45,158)	**32,079**	1 Jan 2013 – 31 Jul 2016	636	–	1 Aug 2016 – 31 Jul 2023
	4 Mar 2014	110,252	–	–	–	**110,252**	1 Jan 2014 – 31 Dec 2016	525	–	4 Mar 2017 – 3 Mar 2024
	2 Mar 2015	144,508	–	–	–	**144,508**	1 Jan 2015 – 31 Dec 2017	432	–	2 Mar 2018 – 1 Mar 2025
	23 Mar 2016	–	211,153	–	–	**211,153**	1 Jan 2016 – 31 Dec 2018	282	–	23 Mar 2019 – 22 Mar 2026
CSOP	2 Mar 2012	6,073	–	(6,073)	–	**–**	2 Mar 2012 – 1 Mar 2015	247	247	2 Mar 2015 – 1 Mar 2022
	23 Mar 2016	–	10,224	–	–	**10,224**	1 Jan 2016 – 31 Dec 2018	282	293	23 Mar 2019 – 22 Mar 2026
DSP: Deferred	8 Apr 2013	54,675	–	(54,675)	–	**–**	–	422	–	–
Matching	8 Apr 2013	54,675	–	(32,089)	(22,586)	**–**	1 Jan 2013 – 31 Dec 2015	422	–	8 Apr 2016 – 7 Apr 2023
DSP: Deferred	14 Mar 2014	58,096	–	–	–	**58,096**	–	528	–	–
Matching	14 Mar 2014	58,096	–	–	–	**58,096**	1 Jan 2014 – 31 Dec 2016	528	–	14 Mar 2017 – 13 Mar 2024
Deferred	2 Mar 2015	56,112	–	–	–	**56,112**	–	432	–	–
Matching	2 Mar 2015	56,112	–	–	–	**56,112**	1 Jan 2015 – 31 Dec 2017	432	–	2 Mar 2018 – 1 Mar 2025
Deferred	23 Mar 2016	–	51,004	–	–	**51,004**	–	282	–	–
Matching	23 Mar 2016	–	51,004	–	–	**51,004**	1 Jan 2016 – 31 Dec 2018	282	–	23 Mar 2019 – 22 Mar 2026
SAYE	29 Mar 2012	7,777	–	–	–	**7,777**	–	–	198	1 Jun 2019 – 30 Nov 2019
Total		850,915	323,385	(260,139)	(67,744)	**846,417**				
Adrian Gardner										
PSP	4 Mar 2014	74,111	–	–	(74,111)	**–**	1 Jan 2014 – 31 Dec 2016	525	–	4 Mar 2017 – 3 Mar 2024
	2 Mar 2015	92,196	–	–	(92,196)	**–**	1 Jan 2015 – 31 Dec 2017	432	–	2 Mar 2018 – 1 Mar 2025
	23 Mar 2016	–	53,830	–	(53,830)	**–**	1 Jan 2016 – 31 Dec 2018	282	–	23 Mar 2019 – 22 Mar 2026
CSOP	4 Mar 2014	5,708	–	–	(5,708)	**–**	1 Jan 2014 – 31 Dec 2016	525	525	4 Mar 2017 – 3 Mar 2024
DSP: Deferred	2 Mar 2015	25,667	–	–	–	**25,667**	–	432	–	–
Matching	2 Mar 2015	25,667	–	–	(25,667)	**–**	1 Jan 2015 – 31 Dec 2017	432	–	2 Mar 2018 – 1 Mar 2025
Deferred	23 Mar 2016	–	22,734	–	–	**22,734**	–	282	–	–
Matching	23 Mar 2016	–	22.734	–	(22,734)	**–**	1 Jan 2016 – 31 Dec 2018	282	–	23 Mar 2019 – 22 Mar 2026
SAYE	28 Aug 2014	6,902	–	–	(6,902)	**–**	–	–	439	1 Nov 2019 – 30 Apr 2020
Total		230,251	99,298	–	(281,148)	**48,401**				

* The August PSP 2013 vested at 58.69% and therefore 41.31% lapsed.

* Adrian Gardner's share options lapsed on cessation of his employment in accordance with the plan rules.

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

	Date of award	Awards held at 31 December 2015	Awarded in 2016	Exercised in 2016	Lapsed In 2016*	**Awards held at 31 December 2016**	Performance condition period	Share price date of grant (p)	Exercise price (p)	Exercise period
David Broadbent										
PSP	8 Aug 2012	52,729	–	(52,729)	–	**–**	8 Aug 2012 – 7 Aug 2015	293	–	8 Aug 2015 – 7 Aug 2022
	1 Aug 2013	62,755	–	(15,858)	(31,039)	**15,858**	1 Jan 2013 – 31 Jul 2016	636	–	1 Aug 2016 – 31 Jul 2023
	4 Mar 2014	75,067	–	–	(25,023)	**50,044**	1 Jan 2014 – 31 Dec 2016	525	–	4 Mar 2017 – 3 Mar 2024
	2 Mar 2015	94,122	–	–	(62,748)	**31,374**	1 Jan 2015 – 31 Dec 2017	432	–	2 Mar 2018 – 1 Mar 2025
CSOP	4 Mar 2014	2,854	–	–	(952)	**1,902**	1 Jan 2014 – 31 Dec 2016	525	525	4 Mar 2017 – 3 Mar 2024
	2 Mar 2015	929	–	–	(620)	**309**	1 Jan 2015 – 31 Dec 2017	432	432	2 Mar 2018 – 1 Mar 2025
DSP: Deferred	8 Apr 2013	39,276	–	(39,276)	–	**–**	–	422	–	–
Matching	8 Apr 2013	39,276	–	(21,771)	(17,505)	**–**	1 Jan 2013 – 31 Dec 2015	422	–	8 Apr 2016 – 7 Apr 2023
Deferred	14 Mar 2014	40,022	–	–	–	**40,022**	–	528	–	–
Matching	14 Mar 2014	40,022	–	–	(14,453)	**25,569**	1 Jan 2014 – 31 Dec 2016	528	–	14 Mar 2017 – 13 Mar 2024
Deferred	2 Mar 2015	37,321	–	–	–	**37,321**	–	432	–	–
Matching	2 Mar 2015	37,321	–	–	(24,881)	**12,440**	1 Jan 2015 – 31 Dec 2017	432	–	2 Mar 2018 – 1 Mar 2025
SAYE	28 Aug 2014	6,902	–	–	(6,902)	**–**	–	–	439	1 Nov 2019 – 30 Apr 2020
Total		528,596	–	(129,634)	(184,123)	**214,839**				

* The August PSP 2013 vested at 58.69% and therefore 41.31% lapsed.

* David Broadbent's share options were pro-rated and lapsed on cessation of his employment in accordance with the plan rules.

The mid-market closing price of the Company's shares on 30 December 2016 was 172.3 pence and the range during 2016 was 341.2 pence to 160.6 pence.

The aggregate gains of directors arising from the exercise of options granted under the PSP, CSOP and DSP in the year totalled £1,079,311.

Shareholder context

The table below summarises voting outcomes at the 2014, 2015 and 2016 AGMs (% of total votes cast).

AGM		For	Against	Withheld[1]
2014	Directors' Remuneration Policy	97.10%	2.90%	0.20%
2015	Annual Remuneration Report	98.90%	1.10%	5.00%
2016	Annual Remuneration Report	92.37%	7.63%	0.07%

[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

Appointment of the Chief Financial Officer

Justin Lockwood joined the Board as Chief Financial Officer on 23 February 2017. His remuneration package is set out below, which follows the policy in place at the time of appointment (2014 Policy). He will transition to the 2017 Policy in the same way as the CEO, with first awards expected under the 2017 policy in 2018.

- Base salary – £260,000. This is lower than Adrian Gardner's base salary (£319,000) and reflects his level of experience and requirement to develop in the role. As a result, the Committee, in accordance with the 2014 Policy and 2017 Policy, expect to review his salary in the upcoming years and may consider increases beyond those typically granted to the wider workforce to achieve the desired salary level commensurate with the role, subject to performance.
- Annual bonus – 65% of base salary for on target performance and 100% of base salary for maximum performance, subject to the approval of the 2017 Policy
- The performance measures for the year will be as per the 2017 Policy for executive directors.
- PSP – he will be eligible to receive a PSP award equal to 125% of base salary in the year in line with our 2014 Policy. The award will be subject to performance conditions set at the time of grant and a three-year performance period and two year holding period.
- Benefits – provided in line with our 2014 Policy (no change under 2017 Policy).
- Pension – whilst the 2014 Policy provides for a Company contribution is 20% of base salary, the Committee have determined that he should be provided with a company contribution in line with the 2017 Policy, 15% of base salary, as the 2017 Policy will be put to shareholder approval so soon after his appointment, and it is in line with his current Company contribution.
- Shareholding guidelines – all executive directors are required to hold Company shares equivalent to 200% of their base salary. Until this requirement is met, directors must retain (net of any shares sold to meet tax liability) 50% of shares vesting from deferred bonus, PSP and exercise of options.

Directors' Remuneration Policy in the following financial year

The base salary for the Chief Executive Officer will remain unchanged for 2017 at £505,000.

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

The 2017 Policy will apply after the AGM and it is intended that the annual bonus measured over the 2017 year will operate under this policy. Under this policy there is no change to maximum opportunity, which will remain at 100% of base salary and the on target opportunity will be 65% of base salary. The performance measures will be 80% on financial and strategic and 20% on personal objectives, as per the new policy rules. Targets are not disclosed on a forward-looking basis because they are considered by the Board to be commercially sensitive, in particular resulting from the fact that the majority of the Company's competitors are unlisted. Targets will continue to be disclosed retrospectively to ensure transparency.

It is expected that the LTIP (PSP and DSP matching shares) awards granted to the Chief Executive Officer during 2014 will vest partially in 2017.

To enable a smooth transition between the 2014 and 2017 policies, the first PSP awards made under the 2017 policy will be in 2018.

The PSP awards granted in 2017 will be made to the executive directors under the 2014 Policy, existing PSP (prior to the AGM) and awards of up to a maximum of 125% of base salary are expected to be made. As in 2016, performance will be assessed against three equally weighted, independently measured metrics: one-third absolute TSR; one-third EPS growth; and one-third growth in revenue less impairment with threshold vesting of 25% on each. An award will also be made in 2017 under the existing DSP in relation to 2016 bonus achievement. This will be the last DSP award to receive a match under existing the scheme before it is retired. The performance ranges for PSP and DSP matching shares have yet to be confirmed. The Committee will ensure that these are set to be stretching and achievable taking into account all relevant data points including the budget, analysts forecasts, historical performance, and incentive performance ranges at the Company's comparators, and the targets will be disclosed in next year's report.

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 Almond
- Richard Moat

The Committee received assistance from the Senior Management Team and Anna Fletcher (Group Senior Reward Manager). Other members of management, may attend meetings by invitation except when matters relating to their own remuneration are being discussed.

Advisor to the Committee

The Committee undertook a competitive selection process during the year following which Willis Towers Watson was appointed to provide independent remuneration advice. Since its appointment in April 2016, Willis Towers Watson has provided advice on remuneration matters including supporting the Committee with its wholesale review of remuneration policy in readiness for its presentation to shareholders for a binding vote at the 2017 AGM. During 2016 total fees in respect of advice to the Committee (based on time and materials) totalled £68,638 (excluding VAT). In the period from January to March 2016, Kepler Associates ("Kepler") provided advice to the Committee, the fees paid in respect of which was £15,000 (excluding VAT). Both Willis Towers Watson and Kepler are founding members of the Remuneration Consultants Group and signatories to, and abide 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 neither Kepler nor Willis Towers Watson have any connections with the Company that may impair its independence.

Approved by the Board

Cathryn Riley

Cathryn Riley
Chair

1 March 2017

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 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.

The financial statements that we have audited comprise:

- the Group and Company income statement;
- the Group and Company statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company cash flow statements;
- the Group and Company statements of changes in equity;
- the accounting policies; and
- the related notes 1 to 33.

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.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Financial Review on page 35 to the Financial Statements and the directors' statement on the longer-term viability of the Group contained within the Strategic Report on page 43.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 43 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;
- the disclosures on pages 36 to 43 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the Financial Review on page 35 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 ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and
- the directors' explanation on page 43 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Summary of our audit approach

Key risks	The key risks that we have identified in the current year were: • Impairment of receivables • Revenue recognition and calculation of the effective interest rate • Tax provision and deferred tax accounting • Regulatory and legal risk Prior year key risks in relation to pension scheme assumptions and the discontinuation of the Slovakian business are not considered to be key risks in the current year. Within this report, any new risks are identified with ▲ and any risks which are the same as the prior year identified with ◀▶
Materiality	The materiality that we used in the current year was £4.6 million (2015: £5.9 million) which was determined on the basis of profit before tax.
Scoping	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.
Significant changes in our approach	There have been no significant changes in our audit approach from the prior period.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk	Key observations
Impairment of receivables Determining impairment provisions against customer receivables is highly judgemental, requiring estimates to be made of the likely loss within the lending portfolios. As detailed in note 16, net customer receivables amounted to £939.9 million as of 31 December 2016 (2015: £802.4 million). We have identified the key impairment risks as being the estimation of future customer default rates for customers in arrears, and hence expected future cash flows for each portfolio. In addition, there is a risk that post model overlays made to account for emerging risks not yet observed in historical collection curves are inappropriate. The risk is described further by the Audit and Risk Committee on page 54 and within the key assumptions and estimates on page 109. Please also see note 21 for further information.	We evaluated the design, and tested the operating effectiveness of controls over the provisioning process, including using IT specialists within the audit team to test the key IT controls over the systems in which the source customer receivable data is maintained, and reviewing minutes from key management forums. Where necessary, we also tested the completeness and accuracy of information used by management to operate key lending controls, by extraction of source data from the core lending systems and independent recalculation of the relevant information. We also involved credit risk specialists to test the process and controls for implementing new impairment curves. We evaluated the appropriateness of management's key assumptions used in the impairment calculations for customer receivables, including the estimation of customer default rates and expected future cash flows for each portfolio. This involved assessing management's tests of historical forecasting accuracy, and re-performing a sample of these tests using independent extracts of customer receivable collections data. We also challenged the appropriateness of historical data used to predict future collections performance by reference to internal and external factors affecting the business. In addition, we recalculated a sample of portfolio carrying values in accordance with the approved impairment provisioning policy and tested the accuracy of the arrears status of individual loan receivables on a sample basis to gain comfort over the accuracy of the impairment provision balance. We also assessed the implications of the above work on the accuracy and predictive nature of the cash forecasting curves.	As a result of our audit testing we found that the assumptions used in the model to value customer receivables were appropriately applied.
Revenue recognition and calculation of the effective interest rate The recognition of revenue on loans using an effective interest rate ('EIR') method requires significant judgement by management to determine key assumptions, in particular the expected life of each loan and related cash flows. These cash flows include interest charges, home collection charges, and early settlement rebates. We have identified the key risk to be the completeness and accuracy of the fees and charges included in the EIR calculations. The risk is described further by the Audit and Risk Committee on page 54 and within the key assumptions and estimates on page 109.	We evaluated the design, and tested the operating effectiveness of controls in relation to revenue recognition, and the mechanical accuracy of the models used to calculate the effective interest rates. This involved the recalculation of a sample of product and cohort effective interest rates based upon an independent extract of source data from the core lending system. We also tested the completeness and accuracy of cash flow information included within the models. We assessed the appropriateness of management's key assumptions used to calculate the effective interest rate by reference to the impact of recently observable early redemption behaviour on the average lives of loan receivables. We also confirmed that the revenue recognition policies applied to the material loan types offered by the Group were appropriate in accordance with IAS 18 Revenue.	As a result of our audit testing, we found that the methodology used for the calculation of the EIR is materially accurate in the context of the accounting policies, and the requirements of the relevant accounting standards.

Risk	How the scope of our audit responded to the risk	Key observations
◀▶ **Tax provision and deferred tax accounting** The group carries a provision relating to uncertain tax positions in various jurisdictions. Management applies significant judgement to calculate these provisions, based upon internal and external information and advice. In the current year, the most material judgements have been applied in the context of the ongoing Polish tax audits as detailed in the Financial Review on page 32. The recognition of deferred tax assets is also judgemental as it is partly reliant upon the underlying profit forecasts of the Group. In the current year a deferred tax asset of £112.0 million (2015: £82.2 million) has been recognised. The measurement of the asset varies across the different markets due to temporary differences between local tax basis and local GAAP. The risk is described further by the Audit and Risk Committee on page 54 and within the key assumptions and estimates on page 109.	Utilising tax specialists within the group and component audit teams, we have challenged management's assessment of the significant uncertain tax positions, including the Polish tax audits, by reference to available external advice commissioned by Management, our knowledge of similar scenarios (where available), and our independent assessment of the of the exposures in the context of extant tax law. This work included considering recent tax authority announcements, and reviewing correspondence with tax authorities in the markets within which the Group operates to identify any potential areas where provisions could arise. We also tested the recognition and measurement of the deferred tax assets. This involved confirming the nature of the timing differences giving rise to the assets. We also confirmed that the profit forecasts used to justify the recognition of the assets were consistent with the Board approved underlying profit forecasts of the Group, which we challenged by reference to historical forecasting accuracy and other internal sources of data.	The judgements applied by management in the valuation of the year end tax provision, and the associated disclosures in the Financial Statements are considered to be a reasonable. We also considered the deferred tax asset to be appropriately measured.
◀▶ **Regulatory and legal risk** As a result of enhanced supervisory powers for certain regulatory bodies in the markets within which the Group operates, and an increased focus upon product design and matters relating to the fair treatment of customers, there is an increased risk in relation to the completeness of provisions against regulatory exposures. In particular, significant judgement is required in relation to whether any provisions are required for customer remediation. As included in note 15, amounts held as of 31 December 2016 are £1.5 million (2015: £1.5 million). The risk is described further by the Audit and Risk Committee on page 54.	We considered the completeness of regulatory provisions required by reference to internal and publically available external information, determined the key assumptions, and queried the appropriateness of management's judgement on these for a sample of exposures across jurisdictions. This work included considering recent regulatory authority announcements, reviewing correspondence with regulatory bodies in the markets within which the Group operates to identify any potential areas where provisions could arise, reviewing the Group's complaints logs, and reviewing any significant ongoing court cases brought to our attention. In addition, we reviewed the key regulatory risks of which we became aware from the procedures we performed, met with the Group legal department and relevant management across the Group, and reviewed relevant Board minutes to assess the completeness of relevant provisions in place. This work involved the utilisation of regulatory expertise within the audit teams in the various countries in which the Group operates.	We consider that the provisions recognised in relation to regulatory exposures are reasonable.

The prior year key risk in relation to the discontinuation of the Slovakian business is not considered to be a key risk in the current year. There have not been any other changes to the key risks identified since the prior year.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Our approach to 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.

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.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Group materiality	£4.6 million (2015: £5.9 million)
Basis for determining materiality	5% of profit before tax.
Rationale for the benchmark applied	The accumulation of profits is critical to an investor and in allowing the Group to invest in the business. We have therefore selected profit before tax as the benchmark for determining materiality.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.1 million (2015: £0.1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at six locations, which were subject to a full audit, and one location which involved the testing of specified balances. The locations were based across Central Europe together with Mexico. Together with the Group functions in the UK, which were also subject to a full audit, these eight locations represent the principal business units and account for 96% (2015: 99%) of the Group's net assets, 99% (2015: 98%) of the Group's revenue, 96% (2015: 100%) of the Group's profit before tax and 64% (2015: 79%) of the losses before tax generated by components.

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the eight locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.2 million to £2.8 million (2015: £0.1 million to £3.0 million).

The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor visit each of the locations where the Group audit scope was focused at least once every three years. In years when we do not visit a significant component we will include the component audit partner and team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work. In the current year the Senior Statutory Auditor visited Poland.

Opinion 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; and
- 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.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s and the Parent Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Stephen Williams
FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, United Kingdom

1 March 2017

Consolidated income statement

for the year ended 31 December

Group	Notes	2016 £M	2015 Pre-exceptional items £M	2015 Exceptional items (note 10) £M	2015 £M
Revenue	1	**763.4**	735.4	–	735.4
Impairment	1	**(187.5)**	(188.9)	(10.3)	(199.2)
Revenue less impairment		**575.9**	546.5	(10.3)	536.2
Finance costs	2	**(47.1)**	(41.6)	–	(41.6)
Other operating costs		**(130.7)**	(116.8)	–	(116.8)
Administrative expenses		**(305.5)**	(272.0)	(5.6)	(277.6)
Total costs		**(483.3)**	(430.4)	(5.6)	(436.0)
Profit before taxation	1	**92.6**	116.1	(15.9)	100.2
Tax (expense)/income – UK		**(3.1)**	(2.1)	0.6	(1.5)
Tax expense – overseas		**(22.6)**	(29.1)	(7.1)	(36.2)
Total tax expense	5	**(25.7)**	(31.2)	(6.5)	(37.7)
Profit after taxation attributable to owners of the Company		**66.9**	84.9	(22.4)	62.5

The profit for the year is from continuing operations.

Group	Notes	2016 pence	2015 pence
Earnings per share – statutory			
Basic	6	**30.2**	27.3
Diluted	6	**29.4**	26.6

Group	Notes	2016 pence	2015 pence
Earnings per share – adjusted for exceptional items			
Basic	6	**30.2**	37.1

Statements of comprehensive income

for the year ended 31 December

		Group		Company	
	Notes	2016 £M	2015 £M	2016 £M	2015 £M
Profit/(loss) after taxation attributable to owners of the Company		**66.9**	62.5	**(17.2)**	(8.9)
Other comprehensive income/(expense)					
Items that may subsequently be reclassified to income statement					
Exchange gains/(losses) on foreign currency translations		**65.1**	(23.9)	–	–
Net fair value gains/(losses) – cash flow hedges		**1.5**	(1.0)	**0.7**	0.3
Tax (charge)/ credit on items that may be reclassified	5	**(0.1)**	0.3	**(0.1)**	–
Items that will not subsequently be reclassified to income statement					
Actuarial (losses)/gains on retirement benefit obligation		**(10.0)**	0.7	**(10.0)**	(0.8)
Tax credit/(charge) on items that will not be reclassified	5	**1.9**	(0.1)	**1.9**	–
Other comprehensive income/(expense) net of taxation		**58.4**	(24.0)	**(7.5)**	(0.5)
Total comprehensive income/(expense) for the year attributable to owners of the Company		**125.3**	38.5	**(24.7)**	(9.4)

The accounting policies and notes 1 to 33 are an integral part of these Financial Statements.

Balance sheets

as at 31 December

		Group		Company	
	Notes	**2016 £M**	2015 £M	**2016 £M**	2015 £M
Assets					
Non-current assets					
Goodwill	11	**23.3**	20.1	**–**	–
Intangible assets	12	**32.6**	25.6	**–**	–
Investment in subsidiaries	13	**–**	–	**699.3**	697.4
Property, plant and equipment	14	**23.4**	24.3	**0.1**	0.1
Deferred tax assets	15	**112.0**	82.2	**2.0**	0.9
		191.3	152.2	**701.4**	698.4
Current assets					
Amounts receivable from customers:					
– due within one year		**808.3**	718.9	**–**	–
– due in more than one year		**131.6**	83.5	**–**	–
	16	**939.9**	802.4	**–**	–
Derivative financial instruments	22	**15.4**	11.5	**3.3**	2.5
Cash and cash equivalents	17	**43.4**	39.9	**3.9**	0.1
Other receivables	18	**20.8**	14.8	**627.4**	552.3
Current tax assets		**3.1**	1.3	**0.1**	3.9
		1,022.6	869.9	**634.7**	558.8
Total assets		**1,213.9**	1,022.1	**1,336.1**	1,257.2
Liabilities					
Current liabilities					
Borrowings	20	**(22.4)**	(22.3)	**–**	(15.2)
Derivative financial instruments	22	**(4.7)**	(2.8)	**(0.3)**	(0.2)
Trade and other payables	19	**(123.2)**	(95.5)	**(252.0)**	(191.9)
Current tax liabilities		**(16.5)**	(30.9)	**–**	–
		(166.8)	(151.5)	**(252.3)**	(207.3)
Non-current liabilities					
Retirement benefit obligation	25	**(9.1)**	(0.2)	**(9.1)**	(0.2)
Deferred tax liabilities	15	**(8.1)**	(8.6)	**(0.1)**	–
Borrowings	20	**(600.4)**	(534.6)	**(526.4)**	(453.8)
		(617.6)	(543.4)	**(535.6)**	(454.0)
Total liabilities		**(784.4)**	(694.9)	**(787.9)**	(661.3)
Net assets		**429.5**	327.2	**548.2**	595.9
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		**8.7**	(56.4)	**–**	–
Hedging reserve		**1.1**	(0.3)	**0.6**	0.3
Own shares		**(50.8)**	(58.9)	**(50.8)**	(58.9)
Capital redemption reserve		**2.3**	2.3	**2.3**	2.3
Retained earnings		**467.3**	439.6	**346.4**	402.5
Total equity		**429.5**	327.2	**548.2**	595.9

The accounting policies and notes 1 to 33 are an integral part of these Financial Statements.

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 33 were approved by the Board on 1 March 2017 and were signed on its behalf by:

Justin Lockwood

Gerard Ryan
Chief Executive Officer

Justin Lockwood
Chief Financial Officer

Statements of changes in equity

Group – Attributable to owners of the Company	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 2015	24.0	(22.5)	(32.5)	0.4	(43.1)	1.7	433.6	361.6
Comprehensive income								
Profit after taxation for the year	–	–	–	–	–	–	62.5	62.5
Other comprehensive (expense)/income								
Exchange losses on foreign currency translation	–	–	(23.9)	–	–	–	–	(23.9)
Net fair value losses – cash flow hedges	–	–	–	(1.0)	–	–	–	(1.0)
Actuarial gain on retirement benefit obligation	–	–	–	–	–	–	0.7	0.7
Tax credit/(charge) on other comprehensive income	–	–	–	0.3	–	–	(0.1)	0.2
Total other comprehensive (expense)/income	–	–	(23.9)	(0.7)	–	–	0.6	(24.0)
Total comprehensive (expense)/income for the year	–	–	(23.9)	(0.7)	–	–	63.1	38.5
Transactions with owners								
Share-based payment adjustment to reserves	–	–	–	–	–	–	6.2	6.2
Deferred tax on share-based payment transactions	–	–	–	–	–	–	(0.3)	(0.3)
Own shares acquired	(0.6)	–	–	–	(28.9)	0.6	(21.3)	(50.2)
Shares granted from treasury and employee trust	–	–	–	–	13.1	–	(13.1)	–
Dividends paid to Company shareholders	–	–	–	–	–	–	(28.6)	(28.6)
At 31 December 2015	23.4	(22.5)	(56.4)	(0.3)	(58.9)	2.3	439.6	327.2
At 1 January 2016	**23.4**	**(22.5)**	**(56.4)**	**(0.3)**	**(58.9)**	**2.3**	**439.6**	**327.2**
Comprehensive income								
Profit after taxation for the year	–	–	–	–	–	–	66.9	66.9
Other comprehensive income/(expense)								
Exchange gains on foreign currency translation	–	–	65.1	–	–	–	–	65.1
Net fair value gains – cash flow hedges	–	–	–	1.5	–	–	–	1.5
Actuarial loss on retirement benefit obligation	–	–	–	–	–	–	(10.0)	(10.0)
Tax (charge)/credit on other comprehensive income	–	–	–	(0.1)	–	–	1.9	1.8
Total other comprehensive income/(expense)	–	–	65.1	1.4	–	–	(8.1)	58.4
Total comprehensive income for the year	–	–	65.1	1.4	–	–	58.8	125.3
Transactions with owners								
Share-based payment adjustment to reserves	–	–	–	–	–	–	4.4	4.4
Shares granted from treasury and employee trust	–	–	–	–	8.1	–	(8.1)	–
Dividends paid to Company shareholders	–	–	–	–	–	–	(27.4)	(27.4)
At 31 December 2016	**23.4**	**(22.5)**	**8.7**	**1.1**	**(50.8)**	**2.3**	**467.3**	**429.5**

Company – Attributable to owners of the Company	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 2015	24.0	226.3	–	(43.1)	1.7	469.3	678.2
Comprehensive income							
Loss after taxation for the year	–	–	–	–	–	(8.9)	(8.9)
Other comprehensive income/(expense)							
Net fair value gains – cash flow hedges	–	–	0.3	–	–	–	0.3
Actuarial loss on retirement benefit obligation	–	–	–	–	–	(0.8)	(0.8)
Total other comprehensive income/(expense)	–	–	0.3	–	–	(0.8)	(0.5)
Total comprehensive income/(expense) for the year	–	–	0.3	–	–	(9.7)	(9.4)
Transactions with owners							
Share-based payment adjustment to reserves	–	–	–	–	–	6.2	6.2
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.3)	(0.3)
Own shares acquired	(0.6)	–	–	(28.9)	0.6	(21.3)	(50.2)
Shares granted from employee trust	–	–	–	13.1	–	(13.1)	–
Dividends paid to Company shareholders	–	–	–	–	–	(28.6)	(28.6)
At 31 December 2015	23.4	226.3	0.3	(58.9)	2.3	402.5	595.9
At 1 January 2016	**23.4**	**226.3**	**0.3**	**(58.9)**	**2.3**	**402.5**	**595.9**
Comprehensive income							
Loss after taxation for the year	**–**	**–**	**–**	**–**	**–**	**(17.2)**	**(17.2)**
Other comprehensive income/(expense)							
Net fair value gains – cash flow hedges	**–**	**–**	**0.4**	**–**	**–**	**0.3**	**0.7**
Actuarial losses on retirement benefit obligation	**–**	**–**	**–**	**–**	**–**	**(10.0)**	**(10.0)**
Tax (charge)/credit on other comprehensive income	**–**	**–**	**(0.1)**	**–**	**–**	**1.9**	**1.8**
Total other comprehensive income/(expense)	**–**	**–**	**0.3**	**–**	**–**	**(7.8)**	**(7.5)**
Total comprehensive income/(expense) for the year	**–**	**–**	**0.3**	**–**	**–**	**(25.0)**	**(24.7)**
Transactions with owners							
Share-based payment adjustment to reserves	**–**	**–**	**–**	**–**	**–**	**4.4**	**4.4**
Shares granted from treasury and employee trust	**–**	**–**	**–**	**8.1**	**–**	**(8.1)**	**–**
Dividends paid to Company shareholders	**–**	**–**	**–**	**–**	**–**	**(27.4)**	**(27.4)**
At 31 December 2016	**23.4**	**226.3**	**0.6**	**(50.8)**	**2.3**	**346.4**	**548.2**

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 loss after taxation of the Parent Company for the period was £17.2 million (2015: loss of £8.9 million).

The accounting policies and notes 1 to 33 are an integral part of these Financial Statements.

Cash flow statements

for the year ended 31 December

		Group		Company	
	Notes	**2016 £M**	2015 £M	**2016 £M**	2015 £M
Cash flows from operating activities					
Cash generated from/(used in) operating activities	28	**132.5**	100.3	**(21.1)**	51.4
Finance costs paid		**(44.6)**	(40.9)	**(31.6)**	(35.5)
Finance income received		**–**	–	**27.8**	34.2
Income tax (paid)/received		**(66.1)**	(37.0)	**(0.5)**	3.9
Net cash generated from/(used in) operating activities		**21.8**	22.4	**(25.4)**	54.0
Cash flows from investing activities					
Acquisition of subsidiary, net of cash and cash equivalents	30	**–**	(21.0)	**–**	(21.0)
Purchases of property, plant and equipment	14	**(8.3)**	(8.2)	**(0.1)**	–
Proceeds from sale of property, plant and equipment		**–**	0.4	**–**	–
Purchases of intangible assets	12	**(15.8)**	(18.9)	**–**	–
Net cash used in investing activities		**(24.1)**	(47.7)	**(0.1)**	(21.0)
Net cash (used in)/generated from operating and investing activities		**(2.3)**	(25.3)	**(25.5)**	33.0
Cash flows from financing activities					
Proceeds from borrowings		**69.9**	214.9	**71.7**	122.9
Repayment of borrowings		**(41.7)**	(138.2)	**(15.0)**	(112.1)
Dividends paid to Company shareholders	7	**(27.4)**	(28.6)	**(27.4)**	(28.6)
Acquisition of own shares		**–**	(50.2)	**–**	(50.2)
Cash received on share options exercised		**–**	0.7	**–**	0.7
Net cash generated from/(used in) financing activities		**0.8**	(1.4)	**29.3**	(67.3)
Net (decrease)/increase in cash and cash equivalents		**(1.5)**	(26.7)	**3.8**	(34.3)
Cash and cash equivalents at beginning of year		**39.9**	68.8	**0.1**	34.4
Exchange gains/(losses) on cash and cash equivalents		**5.0**	(2.2)	**–**	–
Cash and cash equivalents at end of year	17	**43.4**	39.9	**3.9**	0.1
Cash and cash equivalents at end of year comprise:					
Cash at bank and in hand	17	**43.4**	39.9	**3.9**	0.1

The accounting policies and notes 1 to 33 are an integral part of these Financial Statements.

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 2016 but do not have any impact on the Group:

- IFRS 10 (amendment) `Consolidated financial statements';
- Amendments to IFRS 10 and IAS 28 `Sale or contribution of assets between an investor and its associate or joint venture';
- IFRS 11 (amendment) `Accounting for acquisitions of interests in joint operations';
- IFRS 14 `Regulatory deferral accounts';
- Amendments to IAS 16 and IAS 38 `Clarification of acceptable methods of depreciation and amortisation';
- IAS 27 `Equity method in separate Financial Statements;
- Annual improvements to IFRSs: 2012-2014 cycle; and
- Amendments to IAS 1 `Disclosure initiative'.

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

- IFRS 9 `Financial instruments'. This standard replaces IAS 39, `Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and will affect the Group's accounting for its financial assets. The mandatory implementation date for this standard is 1 January 2018 however it has not yet been endorsed by the European Union. The Group is in the process of assessing IFRS 9's full impact;
- IFRS 15 `Revenue from contracts with customers';
- IFRS 15 (amendment) `Clarifications to IFRS 15 Revenue from Contracts with Customers';
- Amendments to IAS 12 `Recognition of deferred tax assets for unrealised losses';
- IFRS 16 `Leases';
- Annual Improvements to IFRSs: 2014-2016 cycle;
- IFRIC 22 `Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 `Transfers of investment property';
- IFRS 2 (amendment)'Classification and Measurement of Share-based Payment Transactions';
- IAS 7 (amendment) `Disclosure initiative'; and
- IAS 12 (amendment) `Recognition of Deferred Tax Assets for Unrealised Losses'.

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 32.

Consolidation

These Consolidated Financial Statements include the financial results of all companies which are controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. All companies are 100% owned by IPF Group companies. A list of all subsidiaries in the Group is included in note 13.

Finance costs

Finance costs comprise the interest on external borrowings which are recognised on an effective interest rate (`EIR') basis, and gains or losses on derivative contracts taken to the income statement.

Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board. This information is by business line – Home credit and Digital; and by geographic region within the home credit business. 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'). The EIR is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers paying early but excluding the anticipated impact of customers paying late or not paying at all.

Directly attributable issue costs are also taken into account in calculating the EIR. Interest income continues to be accrued on impaired receivables using the original EIR applied to the loan's carrying value.

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.

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, in accordance with IFRIC 11 'IFRS 2 Group and treasury share transactions', the fair value of providing share-based payments to employees of subsidiary companies is treated as an increase in the investment in subsidiaries.

Exceptional items

The Group classifies as exceptional those significant items that are one-off in nature and do not reflect the underlying performance of the Group.

Financial instruments

Amounts receivable from customers

All customer receivables are recognised initially at the amount loaned to the customer plus directly attributable incremental issue costs. After initial recognition, customer receivables are measured subsequently at amortised cost. Amortised cost is the amount of the customer receivable at initial recognition less customer repayments, plus revenue earned calculated using the EIR, less any deduction for impairment. Customer receivables are classified as loans and receivables in accordance with IAS 39 'Financial instruments: recognition and measurement'.

In Home Credit customer receivables are assessed for impairment each week. Customer accounts that are in arrears are deemed to have demonstrated evidence of impairment and are subject to an impairment review. Impairment is calculated using actuarial models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage. These estimated future cash flows are discounted to a present value using the original EIR and this figure is compared with the balance sheet value.

In IPF Digital receivables are assessed for impairment on a monthly basis to reflect the repayment frequency. Evidence of default is deemed to have been demonstrated when accounts are passed to an external debt collection agency although an incurred but not reported provision is created before this based on probability of default and loss given default factors. Impairment provisions reflect the amount and timing of cash flows through loss given default factors.

Impairment charges in respect of customer receivables are charged to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand. Cash also includes those balances held by agents for operational purposes. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Derivative financial instruments

The Group uses derivative financial instruments, principally interest rate swaps, currency swaps and forward currency contracts, to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39. The majority of the Group's derivatives are cash flow hedges of highly probable forecast transactions and meet the hedge accounting requirements of IAS 39. Derivatives are recognised initially at the fair value on the date a derivative contract is entered into and are remeasured subsequently at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the income statement.

For derivatives that are designated as cash flow hedges and where the hedge accounting criteria are met, the effective portion of changes in the fair value is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

The Group discontinues hedge accounting when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are stated subsequently at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the EIR. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each end of reporting period date.

Goodwill is tested for impairment at least annually. This is tested by comparing the carrying value of goodwill to the net present value of latest forecast cashflows from the Digital 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 directly attributable to the acquisition of the items. Repair and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable value over their useful economic lives. The following are the principal bases used:

Category	Depreciation rate	Method
Fixtures and fittings	10%	Straight-line
Equipment (including computer hardware)	20% to 33.3%	Straight-line
Motor vehicles	25%	Reducing balance

The residual value and useful economic life of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised through the income statement for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Share capital

IPF 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. 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.

Past service costs are recognised immediately in the income statement unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time ('the vesting period'). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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.

Key assumptions and estimates

In applying the accounting policies set out above, the Group makes judgements, estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

Revenue recognition

The judgement 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.

Amounts receivable from customers

The Group reviews its portfolio of customer loans and receivables for impairment on a weekly or monthly basis. The Group makes judgements to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows.

In home credit, for the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable predictor of future payment performance. The level of impairment is calculated using actuarial models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage of each product.

In IPF Digital, the default trigger occurs when customers are passed to collections, which averages at 59 days past due, although an incurred but not recorded provision is created before this based on probability of default and loss given default factors that are based on historical performance.

The impairment models are reviewed regularly to take account of the current economic environment and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, an adjustment to the carrying value of amounts receivable from customers may be required. To the extent that the net present value of estimated cash flows differs by +/– 5%, it is estimated that amounts receivable from customers would be £47.0 million higher/lower (2015: £40.1 million).

IAS 39 requires that all of the cash flows directly associated with financial instruments held at amortised cost must be recognised in the income statement using the EIR method. When this approach is applied to a customer loan portfolio, judgements must be made to estimate the average life of that portfolio. These judgements are applied, taking into account factors including the terms of the particular products and historical repayment data. These estimates are considered and updated as required in each reporting period to reflect the customer loan portfolio's expected performance.

Tax

The Group is subject to tax in a number of international jurisdictions as well as the UK. In some cases, due to the unusual features of home credit, the tax treatment of certain items cannot be determined with certainty until the operation has been subject to a tax audit. In some instances, this can be a number of years after the item has first been reflected in the Financial Statements. The Group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of whether it is probable that a liability will crystallise. If the outcome of such audits is that the final liability is different to the amount estimated originally, such differences will be recognised in the period in which the audit or enquiry is determined. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

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.

1. Segment analysis

Geographical segments

	Revenue		Impairment		Profit before taxation	
Group	**2016 £M**	2015 £M	**2016 £M**	2015 £M	**2016 £M**	2015 £M
Home credit						
Poland-Lithuania	**270.7**	267.4	**70.0**	61.3	**56.2**	69.0
Czech-Slovakia	**70.7**	106.5	**(5.8)**	27.7	**12.0**	19.2
Southern Europe	**177.4**	155.1	**37.8**	35.0	**36.9**	26.6
Mexico	**186.5**	175.3	**68.0**	56.0	**11.7**	21.9
Spain	**–**	–	**–**	–	**–**	(1.8)
	705.3	704.3	**170.0**	180.0	**116.8**	134.9
Digital	**58.1**	31.1	**17.5**	8.9	**(9.3)**	(4.2)
UK costs*	**–**	–	**–**	–	**(14.9)**	(14.6)
Total – pre-exceptional items	**763.4**	735.4	**187.5**	188.9	**92.6**	116.1
Exceptional items	**–**	–	**–**	10.3	**–**	(15.9)
Total	**763.4**	735.4	**187.5**	199.2	**92.6**	100.2

* 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.

	Segment assets		Segment liabilities	
Group	**2016 £M**	2015 £M	**2016 £M**	2015 £M
Home credit				
Poland-Lithuania	**397.6**	356.3	**147.1**	155.0
Czech-Slovakia	**106.6**	135.4	**87.5**	113.6
Southern Europe	**265.2**	200.8	**147.5**	117.9
Mexico	**223.1**	200.5	**170.0**	146.1
Spain	**–**	–	**–**	–
	992.5	893.0	**552.1**	532.6
Digital	**148.7**	91.6	**120.7**	59.1
UK	**72.7**	37.5	**111.6**	103.2
Total	**1,213.9**	1,022.1	**784.4**	694.9

	Capital expenditure		Depreciation	
Group	**2016 £M**	2015 £M	**2016 £M**	2015 £M
Home credit				
Poland-Lithuania	**1.5**	1.9	**1.8**	1.4
Czech-Slovakia	**0.6**	0.9	**1.0**	1.7
Southern Europe	**1.6**	2.6	**1.9**	1.6
Mexico	**2.9**	2.1	**1.8**	1.5
Spain	**–**	0.1	**–**	–
	6.6	7.6	**6.5**	6.2
Digital	**0.4**	0.3	**0.1**	0.1
UK	**1.3**	0.3	**3.5**	4.3
Total	**8.3**	8.2	**10.1**	10.6

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 £763.4 million (2015: £735.4 million) and the breakdown by geographical area is disclosed above.

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is £30.5 million (2015: £27.3 million), and the total of non-current assets located in other countries is £48.8 million (2015: £42.7 million).

There is no single external customer from which significant revenue is generated.

Expenditure on intangible assets of £12.2 million (2015: £17.4 million) and amortisation of £6.8 million (2015: £3.3 million) relates to the UK, and expenditure of £3.6 million (2015: £1.2 million) and amortisation of £2.2 million (2015: £1.5 million) relates to IPF Digital.

1. Segment analysis continued

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	2016 £M	2015 £M
Interest payable on borrowings	**47.1**	41.6

3. Profit before taxation

Profit before taxation is stated after charging:

Group	2016 £M	2015 £M
Depreciation of property, plant and equipment (note 14)	**10.1**	10.6
Loss on disposal of property, plant and equipment	**0.8**	–
Impairment of intangible assets (note 12)	**0.7**	4.6
Amortisation of intangible assets (note 12)	**9.0**	4.8
Operating lease rentals:		
– property	**13.2**	12.1
– equipment	**9.0**	8.7
Employee costs (note 9)	**177.7**	154.3

4. Auditor's remuneration

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

Group	2016 £M	2015 £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	**0.5**	0.5
– other assurance services	**0.1**	0.1

Further details on auditor remuneration can be found in the Audit and Risk Committee Report on page 52.

5. Tax expense

Group	2016 £M	2015 £M
Current tax expense/(income)		
– current year	**49.7**	49.6
– prior year	**(0.4)**	(4.7)
	49.3	44.9
Deferred tax (income)/expense (note 15)		
– current year	**(23.1)**	(9.6)
– prior year	**(0.5)**	2.4
	(23.6)	(7.2)
Tax expense	**25.7**	37.7

5. Tax expense continued

Group	2016 £M	2015 £M
Tax credit/(charge) on other comprehensive income		
Deferred tax charge on net fair value losses/gains – cash flow hedges	**(0.1)**	(0.4)
Deferred tax credit on actuarial gains/losses on retirement benefit obligation	**1.9**	0.1
Current tax credit on net fair value losses/gains – cash flow hedges	**–**	0.1
	1.8	(0.2)

The rate of tax expense on the profit before taxation for the year ended 31 December 2016 is higher than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained as follows:

Group	2016 £M	2015 £M
Profit before taxation	**92.6**	100.2
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**18.5**	20.3
Effects of:		
– adjustment in respect of prior years	**(0.9)**	(2.2)
– adjustment in respect of foreign tax rates	**3.3**	3.7
– expenses not deductible for tax purposes	**3.7**	6.4
– change in unrecognised deferred tax assets	**0.7**	10.3
– impact of rate change on deferred tax asset/liability	**0.4**	(0.8)
Total tax expense	**25.7**	37.7

The Group is currently subject to a tax audit with respect to Provident Polska s.a. for the years 2008-2010. The 2010 audit commenced during 2016 and a decision is awaited. For 2008 and 2009, decisions were received in January 2017 and have been appealed. Further details regarding these decisions are set out in the Financial Review on page 32. The Group is also subject to audits in Mexico (regarding 2011) and Slovakia (regarding 2014-2015), all of which are still at the information gathering stage.

6. Earnings per share

Basic earnings per share ('EPS') from continuing operations is calculated by dividing the earnings attributable to shareholders of £66.9 million (2015: £62.5 million) by the weighted average number of shares in issue during the period of 221.2 million (2015: 229.1 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	2016 M	2015 M
Used in basic EPS calculation	**221.2**	229.1
Dilutive effect of awards	**6.3**	6.3
Used in diluted EPS calculation	**227.5**	235.4

Basic and diluted EPS are presented below:

Group	2016 pence	2015 pence
Basic EPS	**30.2**	27.3
Dilutive effect of awards	**(0.8)**	(0.7)
Diluted EPS	**29.4**	26.6

The 2015 adjusted earnings per share, of 37.1 pence, shown in the performance highlights of this report has been presented before exceptional items, in order to better present the underlying performance of the Group.

7. Dividends

Group and Company	2016 £M	2015 £M
Interim dividend of 4.6 pence per share (2015: interim dividend of 4.6 pence per share)	**10.2**	10.6
Final 2015 dividend of 7.8 pence per share (2015: final 2014 dividend of 7.8 pence per share)	**17.2**	18.0
	27.4	28.6

The directors are recommending a final dividend in respect of the financial year ended 31 December 2016 of 7.8 pence per share which will amount to a full year dividend payment of £27.5 million. If approved by the shareholders at the annual general meeting ('AGM'), this dividend will be paid on 12 May 2017 to shareholders who are on the register of members at 18 April 2017. This dividend is not reflected as a liability in the balance sheet as at 31 December 2016 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.

	2016 £M	2015 £M
Short-term employee benefits	**4.4**	4.1
Post-employment benefits	**0.1**	0.1
Share-based payments	**1.1**	2.7
Total	**5.6**	6.9

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year.

Post-employment benefits represent the sum of (i) the increase in the transfer value of the accrued pension benefits (less contributions); (ii) Group contributions into personal pension arrangements; and (iii) contributions into the Group's stakeholder scheme.

For gains arising on executive directors' share options see page 92.

Disclosures in respect of the Group's directors are included in the Directors' Remuneration Report.

9. Employee information

The average number of persons employed by the Group (including directors) was as follows:

Group	2016 Number	2015 Number
Full-time*	**7,598**	7,284
Part-time**	**3,607**	3,003
	11,205	10,287

* Includes 694 agents in Hungary and Romania (2015: includes 283 agents in Hungary).

** Includes 3,169 agents in Hungary and Romania (2015: includes 2,324 agents in Hungary).

Agents are self-employed other than in Hungary where they are required by legislation to be employed. To comply with legislation, our agent force in Romania became employees from the end of 2015 – these agents are included within the average employee number for 2016.

The average number of employees by category was as follows:

Group	2016 Number	2015 Number
Operations	**7,164**	5,952
Administration	**1,004**	1,071
Head office and security	**3,037**	3,264
	11,205	10,287

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

Group	2016 £M	2015 £M
Gross wages and salaries	**146.8**	125.0
Social security costs	**26.6**	24.1
Pension charge – defined contribution schemes (note 25)	**0.8**	1.1
Share-based payment charge (note 26)	**3.5**	4.1
Total	**177.7**	154.3

10. Exceptional items

Group	2016 £M	2015 £M
Exceptional charge	–	(15.9)
Tax charge	–	(6.5)
Post-tax exceptional charge	–	(22.4)

The 2015 income statement includes an exceptional loss of £22.4 million which comprises pre-tax exceptional loss of £15.9 million and an exceptional tax charge of £6.5 million.

The exceptional loss includes £18.6 million in respect of the change in Slovak rate cap legislation in December 2015, following which a decision was made to wind-down our home credit operations in Slovakia. It comprises an £11.2 million charge against profit before tax and the write-off of a deferred tax asset of £7.4 million that we no longer expect to be realised. The pre-tax loss comprises a provision taken against the carrying value of the receivables book based on our best estimate of the value and timing of collections of £10.3 million and £0.9 million from the write down of fixed assets.

We also reported an exceptional cost of £4.7 million in our 2015 half year results, which comprised £2.5 million in respect of MCB Finance integration costs (principally a write-down of IT assets) and Spain home credit closure costs of £2.2 million (principally contractual obligations and IT write-offs). There is a corresponding tax credit of £0.9 million relating to these two items.

11. Goodwill

Group	2016 £M	2015 £M
Net book value		
At 1 January	20.1	–
Acquisition of subsidiary	–	20.4
Exchange adjustments	3.2	(0.3)
At 31 December	23.3	20.1

12. Intangible assets

Group	2016 £M	2015 £M
Net book value		
At 1 January	25.6	10.1
Acquisition of subsidiary	–	6.0
Additions	15.8	18.9
Impairment	(0.7)	(4.6)
Amortisation	(9.0)	(4.8)
Exchange adjustments	0.9	–
At 31 December	32.6	25.6
Analysed as:		
– cost	73.3	56.9
– amortisation	(40.7)	(31.3)
At 31 December	32.6	25.6

Intangible assets comprise computer software and customer relationships acquired on the acquisition of MCB Finance.

The Company has no intangible assets.

13. Investment in subsidiaries

Company	2016 £M	2015 £M
Investment in subsidiaries	**663.6**	663.6
Share-based payment adjustment	**12.5**	10.6
Investment in MCB Finance	**23.2**	23.2
	699.3	697.4

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. £12.5 million (2015: £10.6 million) has been added to the cost of investment representing the fair value of the share-based payment awards over IPF plc shares made to employees of subsidiary companies of IPF plc. The corresponding credit has been taken to reserves.

On 6 February 2015 the Group acquired 100% of the issued share capital of MCB Finance Group plc ('MCB'), a profitable digital consumer finance provider established in 2006, for a cash consideration of £23.2 million.

The subsidiary companies of IPF plc, which are 100% owned by the Group, are detailed below:

Subsidiary company	Country of incorporation and operation	Principal activity
International Personal Finance Digital Spain S.A.U.	Spain	Digital credit
International Personal Finance Investments Limited	United Kingdom	Holding company
IPF Ceská republica s.r.o	Czech Republic	Non-trading
IPF Development (2003) Limited	United Kingdom	Provision of services
IPF Digital AS	Estonia	Provision of services
IPF Digital Australia Pty Limited	Australia	Digital credit
IPF Digital Estonia OÜ	Estonia	Digital credit
IPF Digital Finland Oy	Finland	Digital credit
IPF Digital Latvia, SIA	Latvia	Digital credit
IPF Digital Lietuva, UAB	Lithuania	Digital credit
IPF Digital Mexico S.A de C.V	Mexico	Digital credit
IPF Financial Services Limited	United Kingdom	Provision of services
IPF Financing Limited	United Kingdom	Provision of services
IPF Guernsey (2) Limited	Guernsey	Dormant
IPF Guernsey Limited	Guernsey	Dormant
IPF Holdings Limited	United Kingdom	Holding company
IPF International Limited	United Kingdom	Provision of services
IPF Investments Polska Sp. z o.o.	Poland	Provision of services
IPF Management	Ireland	Provision of services
IPF Polska SP. Z o.o.	Poland	Digital credit
IPF Slovensko s.r.o.	Slovakia	Non-trading
MCB Finance Group Limited	United Kingdom	Holding company
MCB Treasury AB	Sweden	Former intragroup financing company
OOO IPF Bank	Russian Federation	In Liquidation
PF (Netherlands) B.V.	Netherlands	Provision of services
Provident Financial Bulgaria OOD	Bulgaria	Home credit
Provident Financial Romania IFN S.A.	Romania	Home credit
Provident Financial s.r.o.	Czech Republic	Home credit
Provident Financial s.r.o.	Slovakia	Home credit
Provident Financial Zrt.	Hungary	Home credit
Provident Mexico S.A. de C.V.	Mexico	Home credit
Provident Personal Loans (Thailand) Limited	Thailand	Non-trading
Provident Polska S.A.	Poland	Home credit
Provident Polska Sp. Z o.o.	Poland	Non-trading
Provident Servicios de Agencia S.A. de C.V.	Mexico	Provision of services
Provident Servicios S.A. de C.V.	Mexico	Provision of services
Sving Finance, UAB	Lithuania	Digital credit

13. Investment in subsidiaries continued

The trading operation of our Lithuanian home credit business was carried out through a branch of Provident Polska S.A. and consequently there is no separate subsidiary company for these operations.

14. Property, plant and equipment

Equipment and vehicles, fixtures and fittings:

	Group		Company	
	2016 £M	2015 £M	**2016 £M**	2015 £M
Cost				
At 1 January	**87.0**	85.6	**0.9**	0.9
Exchange adjustments	**6.1**	(2.9)	**–**	–
Acquisition of subsidiary	**–**	0.2	**–**	–
Additions	**8.3**	8.2	**0.1**	–
Disposals	**(4.0)**	(4.1)	**–**	–
At 31 December	**97.4**	87.0	**1.0**	0.9
Depreciation				
At 1 January	**62.7**	57.4	**0.8**	0.7
Exchange adjustments	**4.4**	(1.7)	**–**	–
Acquisition of subsidiary	**–**	0.1	**–**	–
Charge to the income statement	**10.1**	10.6	**0.1**	0.1
Disposals	**(3.2)**	(3.7)	**–**	–
At 31 December	**74.0**	62.7	**0.9**	0.8
Net book value at 31 December	**23.4**	24.3	**0.1**	0.1

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	
	2016 £M	2015 £M	**2016 £M**	2015 £M
At 1 January	**73.6**	73.7	**0.9**	1.6
Exchange adjustments	**4.8**	(5.7)	**–**	–
Acquisition of subsidiary	**–**	(1.6)	**–**	–
Tax credit/(charge) to the income statement	**23.6**	7.2	**(0.8)**	(0.4)
Tax credit on other comprehensive income	**1.9**	0.3	**1.8**	–
Tax charge on items taken directly to equity	**–**	(0.3)	**–**	(0.3)
At 31 December	**103.9**	73.6	**1.9**	0.9

The Finance (No. 2) Act 2015, which was substantively enacted on 26 October 2015, included provisions to reduce the UK corporation tax rate to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. The Finance Act 2016, which was substantively enacted on 6 September 2016, included an amending provision to further reduce the UK corporation tax rate to 17% with effect from 1 April 2020. The impact of these rate changes have been applied to the calculation of deferred tax assets and liabilities at 31 December 2016.

15. Deferred tax continued

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	
	2016 **£M**	2015 £M	**2016** **£M**	2015 £M
Deferred tax assets	**112.0**	82.2	**2.0**	0.9
Deferred tax liabilities	**(8.1)**	(8.6)	**(0.1)**	–
At 31 December	**103.9**	73.6	**1.9**	0.9

	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 2015	8.6	56.7	8.4	73.7	0.1	1.5	1.6
Exchange adjustments	(0.5)	(4.9)	(0.3)	(5.7)	–	–	–
Acquisition of subsidiary	0.6	0.4	(2.6)	(1.6)	–	–	–
Tax credit/(charge) to the income statement	0.6	8.6	(2.0)	7.2	(0.1)	(0.3)	(0.4)
Tax credit on other comprehensive income	–	–	0.3	0.3	–	–	–
Tax charge on items taken directly to equity	–	–	(0.3)	(0.3)	–	(0.3)	(0.3)
At 31 December 2015	9.3	60.8	3.5	73.6	–	0.9	0.9
At 1 January 2016	**9.3**	**60.8**	**3.5**	**73.6**	**–**	**0.9**	**0.9**
Exchange adjustments	**1.5**	**3.6**	**(0.3)**	**4.8**	**–**	**–**	**–**
Tax (charge)/ credit to the income statement	**(3.2)**	**21.2**	**5.6**	**23.6**	**(0.2)**	**(0.6)**	**(0.8)**
Tax credit/(charge) on items taken directly to equity	**–**	**–**	**1.9**	**1.9**	**1.9**	**(0.1)**	**1.8**
At 31 December 2016	**7.6**	**85.6**	**10.7**	**103.9**	**1.7**	**0.2**	**1.9**

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 2016, the Group has unused tax losses of £76.0 million (2015: £59.9 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £45.7 million (2015: £50.4 million) of these losses. No deferred tax has been recognised in respect of the remaining £30.3 million (2015: £9.5 million) as it is not considered probable that there will be future taxable profits available against which these losses can be offset.

In 2015, the write-off of the £7.4 million Slovak deferred tax balance was charged to the income statement within the £7.2 million credit in the above table.

16. Amounts receivable from customers

Group	**2016** **£M**	2015 £M
Amounts receivable from customers comprise:		
– amounts due within one year	**808.3**	718.9
– amounts due in more than one year	**131.6**	83.5
	939.9	802.4

16. Amounts receivable from customers continued

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	2016 £M	2015 £M
Polish zloty	**345.7**	300.1
Czech crown	**84.2**	85.0
Euro	**96.3**	87.6
Hungarian forint	**139.6**	107.5
Mexican peso	**161.2**	147.4
Romanian leu	**98.6**	67.3
Bulgarian lev	**7.8**	5.7
Australian dollar	**6.5**	1.8
	939.9	802.4

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 105% (2015: 115%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 7.8 months (2015: 6.3 months).

No collateral is held in respect of any customer receivables. Home credit does not use an impairment provision account for recording impairment losses and, therefore, no analysis of gross customer receivables less provision for impairment is presented. Digital holds an impaired but not reported provision for receivables which have not yet been passed to a third-party collection agency.

Revenue recognised on amounts receivable from customers which have been impaired was £437.0 million (2015: £425.8 million).

Management monitor credit quality using two key metrics: impairment as a percentage of revenue and gross cash loss (`GCL') development. Commentary on impairment as a percentage of revenue is set out in the operational review at both Group and market level. GCL represents the expected total value of contractual cash flows that will not be collected and will ultimately be written off for any loan or group of loans. Until collections on any group of receivables are complete, the GCL forecast is a composite of actual and expected cash flows. This represents a leading edge measure of credit quality with forecasts based on the actual performance of previous lending. At 31 December 2016 our preliminary GCL forecast for home credit for 2017 was 14.2%; the outturn for 2015 lending as at 31 December 2016 was 15.2%. At 31 December 2016 our preliminary loss rate forecast for digital established markets was 6% and for digital new markets was 13% of receivables.

The Company has no amounts receivable from customers.

17. Cash and cash equivalents

	Group		Company	
	2016 £M	2015 £M	2016 £M	2015 £M
Cash at bank and in hand	**43.4**	39.9	**3.9**	0.1

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

	Group		Company	
	2016 £M	2015 £M	2016 £M	2015 £M
Sterling	**3.4**	–	**3.4**	–
Polish zloty	**10.3**	9.0	**–**	–
Czech crown	**3.9**	6.4	**0.2**	–
Euro	**13.2**	9.7	**0.1**	0.1
Hungarian forint	**2.8**	3.7	**0.2**	–
Mexican peso	**5.6**	7.0	**–**	–
Romanian leu	**2.2**	3.0	**–**	–
Bulgarian lev	**1.3**	1.1	**–**	–
Australian dollar	**0.7**	–	**–**	–
Total	**43.4**	39.9	**3.9**	0.1

18. Other receivables

	Group		Company	
	2016 £M	2015 £M	**2016 £M**	2015 £M
Other receivables	**9.9**	6.3	**–**	0.1
Prepayments	**10.9**	8.5	**0.9**	1.1
Amounts due from Group undertakings	**–**	–	**626.5**	551.1
Total	**20.8**	14.8	**627.4**	552.3

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	
	2016 £M	2015 £M	**2016 £M**	2015 £M
Trade payables	**11.4**	7.8	**0.1**	–
Other payables including taxation and social security	**42.6**	34.4	**0.6**	0.7
Accruals	**69.2**	53.3	**22.1**	19.7
Amounts due to Group undertakings	**–**	–	**229.2**	171.5
Total	**123.2**	95.5	**252.0**	191.9

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	
	2016 £M	2015 £M	**2016 £M**	2015 £M
Borrowings				
Bank borrowings	**57.8**	56.1	**–**	2.6
Bonds	**565.0**	500.8	**526.4**	466.4
Total	**622.8**	556.9	**526.4**	469.0

The Group's external bonds comprise the following:

Bond	Coupon %	Maturity date	**2016 £M**
€300 million EMTN	5.750	2021	**256.3**
€100 million EMTN	5.750	2021	**85.4**
€40 million EMTN	4.250	2018	**34.2**
£101.5 million retail bond	6.125	2020	**101.5**
Polish zloty 200.0 million PMTN	Six month WIBOR plus 425 basis points	2020	**38.8**
Romanian lei 79.5 million EMTN	8.000	2019	**15.0**
Romanian lei 65.5 million EMTN	7.000	2018	**12.3**
Hungarian forint 4.0 billion EMTN	11.000	2018	**11.0**
Czech crown 200.0 million EMTN	5.500	2018	**6.3**
Czech crown 250.0 million EMTN	5.250	2018	**7.9**
			568.7
Less: unamortised arrangement fees			**(3.7)**
			565.0

The Polish zloty 200 million (£38.8 million) bonds are floating rate bonds, although derivative contracts have been used to fix borrowing costs up to June 2020. All of the external bank borrowings of the Group are at floating rates.

20. Borrowing facilities and borrowings continued

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

	Group		Company	
	2016 **£M**	2015 £M	**2016** **£M**	2015 £M
Borrowings				
Repayable:				
– in less than one year	**22.4**	22.3	**–**	15.2
– between one and two years	**73.2**	28.7	**71.4**	–
– between two and five years	**527.2**	214.0	**455.0**	161.9
– greater than five years	**–**	291.9	**–**	291.9
Total	**622.8**	556.9	**526.4**	469.0

The average period to maturity of the Group's external bonds and committed external borrowing facilities is 3.3 years (2015: 4.0 years).

The currency exposure on external borrowings is as follows:

	Group		Company	
	2016 **£M**	2015 £M	**2016** **£M**	2015 £M
Sterling	**100.8**	103.2	**100.8**	103.2
Polish zloty	**48.4**	38.2	**–**	–
Czech crown	**16.3**	17.5	**14.0**	14.8
Euro	**373.4**	329.5	**373.4**	321.3
Hungarian forint	**18.9**	16.7	**10.9**	9.1
Mexican peso	**37.7**	31.2	**–**	–
Romanian leu	**27.3**	20.6	**27.3**	20.6
Total	**622.8**	556.9	**526.4**	469.0

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

	Group		Company	
	2016 **£M**	2015 £M	**2016** **£M**	2015 £M
Bond and bank facilities available				
Repayable:				
– on demand	**14.6**	13.6	**5.0**	5.0
– in less than one year	**42.2**	32.0	**–**	12.6
– between one and two years	**85.3**	60.7	**71.8**	–
– between two and five years	**633.1**	288.7	**498.7**	174.2
– greater than five years	**–**	294.9	**–**	294.9
Total	**775.2**	689.9	**575.5**	486.7

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

	Group		Company	
	2016 **£M**	2015 £M	**2016** **£M**	2015 £M
Expiring within one year	**34.4**	23.3	**5.0**	2.4
Expiring between one and two years	**12.1**	32.0	**0.4**	–
Expiring in more than two years	**105.9**	77.7	**43.7**	15.3
Total	**152.4**	133.0	**49.1**	17.7

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 the 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 is managed within set limits; and that financial counterparties are of appropriate credit quality. Policies also set out the specific instruments that can be used for risk management.

The treasury function enters into derivative transactions, principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options.

Liquidity risk

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The short-term nature of the Group's business means that the majority of amounts receivable from customers are receivable within 12 months with an average period to maturity of around eight months. The risk of not having sufficient liquid resources is therefore low. The treasury policy adopted by the Group serves to reduce this risk further by setting a specific policy parameter that there are sufficient committed debt facilities to cover forecast borrowings plus an appropriate level of operational headroom on a rolling basis. Further, the aim is to ensure that there is a balanced refinancing profile with phased maturity dates; that there is diversification of debt funding sources; that there is no over-reliance on a single or small group of lenders; and that debt facilities and hedging capacity are sufficient for the currency requirements of each country. At 31 December 2016, the Group's bonds and committed borrowing facilities had an average period to maturity of 3.3 years (2015: 4.0 years).

As shown in note 20, total undrawn facilities as at 31 December 2016 were £152.4 million (2015: £133.0 million).

As outlined in the Financial Review on page 32, 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 financial year is currently being audited by the tax authorities in Poland, and all subsequent years until 2016 remain open to future audit. Since the year end Provident Polska has appealed the decisions made by the Polish Tax Chamber, to the District Administrative Court, for the 2008 and 2009 financial years and has paid the amounts assessed of approximately £38 million (comprising tax and associated interest) which was necessary in order to make the appeals. In order to appeal any potential future decisions for 2010 and subsequent years, further payments may be required. There are significant uncertainties in relation to the amount and timing of such cash outflows. However, in the event that audits are opened, and similar decisions are reached for each of these subsequent financial years, further amounts of up to c. £95 million may be required to be funded. In relation to these matters, the directors have stated in note 32 that they do not consider that there will be any probable ultimate loss.

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	
	2016 £M	2015 £M	**2016 £M**	2015 £M
Not later than six months	**46.1**	16.2	**15.4**	13.8
Later than six months and not later than one year	**61.1**	38.3	**15.6**	28.9
Later than one year and not later than two years	**107.7**	59.4	**100.6**	26.6
Later than two years and not later than five years	**589.8**	288.0	**511.6**	230.0
Later than five years	**–**	299.4	**–**	299.4
	804.7	701.3	**643.2**	598.7

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:

	2016		2015	
Group	**Outflow £M**	**Inflow £M**	Outflow £M	Inflow £M
Not later than one month	**166.9**	**169.7**	104.8	106.2
Later than one month and not later than six months	**122.1**	**126.2**	132.3	134.4
Later than six months and not later than one year	**59.1**	**57.3**	81.4	80.3
Later than one year and not later than two years	**73.2**	**72.9**	56.9	56.6
Later than two years and not later than five years	**11.8**	**11.8**	24.3	25.8
	433.1	**437.9**	399.7	403.3

21. Risks arising from financial instruments continued

Company	2016 Outflow £M	2016 Inflow £M	2015 Outflow £M	2015 Inflow £M
Not later than one month	**11.5**	**11.7**	2.1	1.8
Later than one month and not later than six months	**10.5**	**10.1**	26.2	26.1
Later than six months and not later than one year	**1.6**	**1.5**	1.3	1.2
Later than one year and not later than two years	**13.0**	**15.0**	1.3	0.9
Later than two years and not later than five years	**–**	**–**	13.1	15.0
	36.6	**38.3**	44.0	45.0

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 %
2015				
Less than one year	718.9	89.6	45.6	6.6
Later than one year	83.5	10.4	644.3	93.4
	802.4	100.0	689.9	100.0
2016				
Less than one year	**808.3**	**86.0**	**56.8**	**7.3**
Later than one year	**131.6**	**14.0**	**718.4**	**92.7**
	939.9	**100.0**	**775.2**	**100.0**

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.

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 (6.2% in 2016; 5.7% in 2015) 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:

Group	2016 £M	2015 £M
Increase in fair value of derivatives taken to equity	**2.7**	3.2
Reduction in profit before taxation	**0.9**	0.6

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.

21. Risks arising from financial instruments continued

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 2016 is an increase in net assets of £65.1 million (2015: decrease of £23.9 million). The Group aims to minimise the value of net assets denominated in each foreign currency by funding overseas receivables with borrowings in local currency, where possible.

Cash flow exposure

The Group is subject to currency risk in respect of future cash flows which are denominated in foreign currency. The policy of the Group is to hedge a large proportion of this currency risk in respect of cash flows which are expected to arise in the following 12 months. Where forward foreign exchange contracts have been entered into, they are designated as cash flow hedges on specific future transactions.

Income statement exposure

As with net assets, the majority of the Group's profit is denominated in currencies other than sterling but translated into sterling for reporting purposes. The result for the period is translated into sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rates in the countries in which the Group operates will have a material impact on the consolidated result for the period.

The following sensitivity analysis demonstrates the impact on equity of a 5% strengthening or weakening of sterling against all exchange rates for the countries in which the Group operates:

Group	**2016** **£M**	2015 £M
Change in reserves	**6.4**	6.1
Change in profit before taxation	**4.7**	8.1

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, Australian dollar and Bulgarian lev); 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	**2016** **£M**	2015 £M
Cash and cash equivalents	**43.4**	39.9
Derivative financial assets	**15.4**	11.5
Total	**58.8**	51.4

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.

21. Risks arising from financial instruments continued

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	**2016 £M**	2015 £M
Amounts receivable from customers	**939.9**	802.4

The table above represents the maximum exposure to credit risk of the Group at the year end. An analysis of the amounts receivable from customers by geographical segment is presented in note 16.

Amounts receivable from customers are stated at amortised cost and calculated in accordance with the Group's accounting policies. Those amounts receivable from customers that are neither past due nor impaired represent loans where no customer payments have been missed and there is, therefore, no evidence to suggest that the credit quality is anything other than adequate.

Amounts receivable from customers include £4.6 million that is past due but not impaired (2015: £5.8 million). This is in relation to the first four weeks of loans for home credit new customers, and allows a repayment pattern to be established.

An analysis of the amounts receivable from customers that are individually determined to be impaired is set out by geographical segment below:

	Not impaired		Impaired	
Group	**2016 £M**	2015 £M	**2016 £M**	2015 £M
Poland-Lithuania	**92.1**	79.9	**236.8**	223.1
Czech-Slovakia	**26.3**	32.4	**60.3**	83.4
Southern Europe	**90.2**	65.8	**155.8**	114.7
Mexico	**47.0**	28.6	**114.2**	118.8
Digital	**109.9**	53.1	**7.3**	2.6
	365.5	259.8	**574.4**	542.6

This analysis includes all loans that have been subject to impairment. The impairment charge is based on the average expected loss for each arrears stage of customer receivables and this average expected loss is applied to the entire arrears stage. This results in a significant proportion of the amounts receivable from customers attracting an impairment charge. For each market the amount by which an asset is impaired depends on the type of product, the recent payment performance and the number of weeks since the loan was issued. There will, therefore, be a large amount of receivables which are classed as impaired but where the carrying value is still a large proportion of the contractual amount recoverable. In IPF Digital the default trigger occurs when customers are passed to collections, however an incurred but not reported provision is held in respect of these balances.

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

Group	**2016 %**	2015 %
Poland-Lithuania	**25.9**	22.9
Czech-Slovakia	**(8.2)**	26.0
Southern Europe	**21.3**	22.6
Mexico	**36.5**	31.9
Digital	**30.1**	28.6

The carrying value of amounts receivable from customers that would have been impaired had their terms not been renegotiated is £nil (2015: £nil).

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	**2016 £M**	2015 £M
Receivables	**939.9**	802.4
Borrowings	**(622.8)**	(556.9)
Other net assets	**112.4**	81.7
Equity	**429.5**	327.2
Equity as % of receivables	**45.7%**	40.8%
Gearing	**1.5**	1.7

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

Gearing, which is equal to borrowings divided by equity, at a ratio of 1.5 times (2015: 1.7 times), is well within covenant limits of 3.75 times.

22. Derivative financial instruments

Fair value estimation

IFRS 7 requires disclosure of fair value measurements of derivative financial instruments by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Where fair values are disclosed for financial assets and liabilities not carried at fair value, all such assets are classed as level 1, with the exception of disclosures relating to amounts receivable from customers which are classed as level 3. Details of the significant assumptions in relation to amounts receivable from customers are included in note 24 along with the fair value of other Group assets and liabilities. All of the Group's financial instruments fall into hierarchy level 2.

The Group's derivative assets and liabilities that were measured at fair value at 31 December are as follows:

Group	**2016 £M**	2015 £M
Assets		
Interest rate swaps	**0.3**	–
Foreign currency contracts	**15.1**	11.5
Total	**15.4**	11.5

Group	**2016 £M**	2015 £M
Liabilities		
Interest rate swaps	**0.8**	1.2
Foreign currency contracts	**3.9**	1.6
Total	**4.7**	2.8

22. Derivative financial instruments continued

Company	2016 £M	2015 £M
Assets		
Foreign currency contracts	**3.3**	2.5
Total	**3.3**	2.5

Company	2016 £M	2015 £M
Liabilities		
Foreign currency contracts	**0.3**	0.2
Total	**0.3**	0.2

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 £1.5 million has been credited to equity for the Group in the period in respect of cash flow hedges (2015: £1.0 million charged to equity), Company: £0.4 million credit (2015: £0.3 million credit).

Foreign currency contracts

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2016 is £427.2 million (2015: £389.0 million). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £223.4 million (2015: £203.4 million). These contracts have various maturity dates up to October 2020 (2015: 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;
- foreign currency contracts to buy or sell various currencies for a total notional amount of £nil million (2015: £0.3 million).
- foreign currency contracts to buy or sell sterling for a total notional amount of £203.8 million (2015: £185.3 million). These contracts have various maturity dates up to December 2018 (2015: 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.

£nil (2015: £0.3 million credit) has been made to the income statement in the year representing the movement in the fair value of the ineffective portion of the Mexican cross currency swap.

The total notional amount of outstanding foreign currency contracts that the Company is committed to at 31 December 2016 is £34.2 million (2015: £39.0 million). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £3.3 million (2015: £2.8 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 £30.9 million (2015: £36.2 million). These contracts have various maturity dates up to November 2018 (2015: 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 £62.2 million (2015: £58.3 million). In 2016, these interest rate swaps cover the current borrowings relating to the floating rate Polish bond and a proportion of floating rate bank borrowings in Mexico.

22. Derivative financial instruments continued

Interest rate swaps in place at the balance sheet date are designated, and are effective under IAS 39, as cash flow hedges, and the fair value thereof has been deferred in equity within the hedging reserve. A charge of £nil (2015: £nil) has been made to the income statement in the year representing the movement in the fair value of the ineffective portion of the interest rate swaps and the income statement charge relating to the closure of interest rate swaps.

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

	2016			2015		
Group	**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
Polish zloty	**2.7**	**2.7-2.8**	**3.4**	2.7	2.7-2.8	4.4
Mexican peso	**4.2**	**4.0-4.5**	**0.5**	4.2	4.0-4.5	1.5

The Company did not hold any interest rate swaps at 31 December 2016 (31 December 2015: £nil).

23. Analysis of financial assets and financial liabilities

Financial assets

An analysis of Group financial assets is presented below:

	2016			2015		
Group	**Loans and receivables £M**	**Derivatives used for hedging £M**	**Total £M**	Loans and receivables £M	Derivatives used for hedging £M	Total £M
Amounts receivable from customers	**939.9**	**–**	**939.9**	802.4	–	802.4
Derivative financial instruments	**–**	**15.4**	**15.4**	–	11.5	11.5
Cash and cash equivalents	**43.4**	**–**	**43.4**	39.9	–	39.9
Other receivables	**20.8**	**–**	**20.8**	14.8	–	14.8
Current tax assets	**3.1**	**–**	**3.1**	1.3	–	1.3
	1,007.2	**15.4**	**1,022.6**	858.4	11.5	869.9

Financial liabilities

An analysis of Group financial liabilities is presented below:

	2016			2015		
Group	**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
Bonds	**565.0**	**–**	**565.0**	500.8	–	500.8
Bank borrowings	**57.8**	**–**	**57.8**	56.1	–	56.1
Derivative financial instruments	**–**	**4.7**	**4.7**	–	2.8	2.8
Trade and other payables	**123.2**	**–**	**123.2**	95.5	–	95.5
Current tax liabilities	**16.5**	**–**	**16.5**	30.9	–	30.9
	762.5	**4.7**	**767.2**	683.3	2.8	686.1

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	**2016** **Fair value** **£M**	**2016** **Carrying value** **£M**	2015 Fair value £M	2015 Carrying value £M
Financial assets				
Amounts receivable from customers	**1,335.5**	**939.9**	1,140.0	802.4
Derivative financial instruments	**15.4**	**15.4**	11.5	11.5
Cash and cash equivalents	**43.4**	**43.4**	39.9	39.9
Other receivables	**20.8**	**20.8**	14.8	14.8
Current tax assets	**3.1**	**3.1**	1.3	1.3
	1,418.2	**1,022.6**	1,207.5	869.9
Financial liabilities				
Bonds	**480.8**	**565.0**	459.9	500.8
Bank borrowings	**57.8**	**57.8**	56.1	56.1
Derivative financial instruments	**4.7**	**4.7**	2.8	2.8
Trade and other payables	**123.2**	**123.2**	95.5	95.5
Current tax liabilities	**16.5**	**16.5**	30.9	30.9
	683.0	**767.2**	645.2	686.1

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 agent collection costs, at the Group's weighted average cost of capital.

The fair value of the bonds has been calculated by reference to their market value.

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 obligations

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 2016. The major assumptions used by the actuary were:

Group and Company	**2016** **%**	2015 %
Price inflation ('CPI')	**2.4**	2.2
Rate of increase to pensions in payment	**3.2**	3.0
Discount rate	**2.7**	3.9

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

25. Retirement benefit obligations continued

The mortality assumptions are based on standard tables which allow for future mortality improvements. Different assumptions are used for different groups of members. Most members have not yet retired. On average, we expect a male retiring in the future at age 65 to live for a further 27 years. On average, we expect a female retiring in the future at age 65 to live for a further 28 years. If life expectancies had been assumed to be one year greater for all members, the defined benefit obligation would increase by approximately £1.8 million.

If the discount rate was 250 basis points higher/(lower), the defined benefit obligation would decrease by £3.0 million/(increase by £3.2 million).

If the price inflation rate was 250 basis points higher/(lower), the defined benefit obligation would increase by £1.6 million/(decrease by £1.6 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

During the year, the Directors of the Company determined that the defined benefit pension liability, which had previously been only partially allocated to the Company balance sheet, should be fully recognised. This determination was on the basis of the underlying funding agreements. The full defined benefit pension liability has always previously been disclosed on the Group balance sheet. No prior year restatement has been recognised on the basis of immateriality, and the increase in the Company's obligation to the defined benefit liability has been recognised through the statement of other comprehensive income.

The amounts recognised in the balance sheet are as follows:

Group and Company	2016 £M	2015 £M
Equities	**22.1**	19.8
Bonds	**9.6**	8.9
Index-linked gilts	**8.3**	7.2
Other	**0.2**	0.2
Total fair value of scheme assets	**40.2**	36.1
Present value of funded defined benefit obligations	**(49.3)**	(36.3)
Net obligation recognised in the balance sheet	**(9.1)**	(0.2)

The amounts recognised in the income statement are as follows:

Group and Company	2016 £M	2015 £M
Interest cost	**1.4**	1.4
Expected return on scheme assets	**(1.4)**	(1.4)
Net cost recognised in the income statement	**–**	–

The net cost is included within administrative expenses.

Movements in the fair value of scheme assets were as follows:

Group and Company	2016 £M	2015 £M
Fair value of scheme assets at 1 January	**36.1**	36.9
Expected return on scheme assets	**1.4**	1.4
Actuarial gain/(loss) on scheme assets	**3.4**	(0.9)
Contributions by the Group	**1.1**	1.1
Net benefits paid out	**(1.8)**	(2.4)
Fair value of scheme assets at 31 December	**40.2**	36.1

25. Retirement benefit obligations continued

Movements in the present value of the defined benefit obligation were as follows:

Group and Company	2016 £M	2015 £M
Defined benefit obligation at 1 January	**(36.3)**	(38.9)
Interest cost	**(1.4)**	(1.4)
Actuarial (loss)/gain on scheme liabilities	**(13.4)**	1.6
Net benefits paid out	**1.8**	2.4
Defined benefit obligation at 31 December	**(49.3)**	(36.3)

The actual return on scheme assets compared to the expected return is as follows:

Group and Company	2016 £M	2015 £M
Expected return on scheme assets	**1.4**	1.4
Actuarial gain/(loss) on scheme assets	**3.4**	(0.9)
Actual return on scheme assets	**4.8**	0.5

Actuarial gains and losses have been recognised through the statement of comprehensive income ('SOCI') in the period in which they occur.

An analysis of the amounts recognised in the SOCI is as follows:

Group and Company	2016 £M	2015 £M
Actuarial gain/(loss) on scheme assets	**3.4**	(0.9)
Actuarial (loss)/gain on scheme liabilities	**(13.4)**	1.6
Total (loss)/gain recognised in the SOCI in the year	**(10.0)**	0.7
Cumulative amount of losses recognised in the SOCI	**(25.5)**	(15.5)

The history of experience adjustments is as follows:

Group and Company	2016	2015	2014	2013*	2012*
Experience gains/(losses) on scheme assets:					
– amount (£M)	**3.4**	(0.9)	2.2	2.1	1.8
– percentage of scheme assets (%)	**8.5**	(2.5)	6.0	6.3	6.0
Experience losses on scheme liabilities:					
– amount (£M)	**–**	–	(1.2)	–	–
– percentage of scheme liabilities (%)	**–**	–	(3.1)	–	–

* As required under IAS 19.

25. Retirement benefit obligations continued

Pension schemes – defined contribution

The defined benefit pension scheme is no longer open to further accrual. All eligible UK employees are invited to join stakeholder pension schemes into which the Group contributes between 8% and 20% of members' pensionable earnings, provided the employee contributes a minimum of 5%. The assets of the scheme are held separately from those of the Group. The pension charge in the income statement represents contributions payable by the Group in respect of the scheme and amounted to £1.1 million for the year ended 31 December 2016 (2015: £1.1 million). £nil contributions were payable to the scheme at the year-end (2015: £nil).

In addition, an amount of £nil (2015: £nil) has been charged to the income statement in respect of contributions into personal pension arrangements for certain directors and employees.

26. Share-based payments

The Group currently operates six categories of share schemes: The International Personal Finance plc Performance Share Plan ('the Performance Share Plan'); The International Personal Finance plc Approved Company Share Option Plan ('the CSOP'); The International Personal Finance plc Employee Savings-Related Share Option Scheme ('the SAYE scheme'); The International Personal Finance plc Deferred Share Plan ('the Deferred Share Plan'); The International Personal Finance plc Have Your Share Plan ('the HYS plan'); and The International Personal Finance plc Discretionary Award Plan ('the Discretionary Award Plan'). A number of awards have been granted under these schemes during the period under review. No awards have been granted under the HYS plan in 2016.

Options granted under the Performance Share Plans and CSOPs may be subject to a total shareholder return ('TSR') performance target and/or earnings per share ('EPS') growth; net revenue growth; customer numbers growth; agent turnover; and earnings before interest and tax ('EBIT') performance targets. The income statement charge in respect of the Performance Share Plan and the CSOP has been calculated using both a Monte Carlo simulation (for TSR) and Black-Scholes model (for the other non-market related conditions) as these schemes include performance targets. There are no performance conditions associated with the HYS plan; if an employee purchases a number of shares (subject to a maximum), the Company grants a nil cost option over four times the number of shares initially purchased. The only criterion associated with this option is that the employee must remain in employment for three years following the initial grant date. The income statement charge in respect of this scheme is calculated using the share price at the date of grant. There are no performance conditions associated with the Discretionary Award Plan, the income statement charge in respect of this scheme is calculated using the share price at the date of grant.

The income statement charge in respect of the SAYE scheme is calculated using a Monte Carlo simulation model, however, no TSR targets are assigned. The Deferred Share Plan comprises deferred awards with matching awards. There are no additional performance criteria attached to the deferred awards, therefore, the income statement charge is calculated using the actual share price at the date the award is granted. The matching awards are subject to the same criteria as the Performance Share Plan.

The total income statement charge in respect of these share-based payments is £3.5 million (2015: £4.1 million).

26. Share-based payments continued

The fair value per award granted and the assumptions used in the calculation of the share-based payment charge are as follows:

Group and Company	SAYE schemes	CSOPs	Deferred Share Plans	Performance Share Plans	Discretionary Award Plan
Grant date	2016	2016	2016	2016	2016
Share price at award date	2.15	2.82	2.82	2.82	2.77
Base price for TSR	n/a	n/a	n/a	n/a	n/a
Exercise price	2.96	2.93	n/a	nil	n/a
Vesting period (years)	3 and 5	3-4	3	3-4	3
Expected volatility	46.2%-46.8%	41.3%-41.4%	41.4%	41.3-41.4%	n/a
Award life (years)	Up to 5	3	3	3	3
Expected life (years)	Up to 5	3	3	3	3
Risk-free rate	0.56%	1.45%	1.45%	1.45%	n/a
Expected dividends expressed as a dividend yield	5.77%	4.40%	4.40%	4.40%	n/a
Deferred portion	n/a	50.0%	n/a	50.0%	n/a
TSR threshold	n/a	30.0%	30.0%	30.0%	n/a
TSR maximum target	n/a	60.0%	60.0%	60.0%	n/a
EPS threshold	n/a	98p	n/a	98p	n/a
EPS maximum target	n/a	110p	n/a	110p	n/a
Net revenue threshold	n/a	n/a and 5.0%	n/a	n/a and 5.0%	n/a
Net revenue maximum target	n/a	n/a and 12.0%	n/a	n/a and 12.0%	n/a
Fair value per award (£)	0.40-0.61	0.50-0.64	1.07-2.47	1.07-2.47	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, SAYEs, 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:

	SAYE schemes		CSOPs		Deferred Share Plans		Performance Share Plans		HYS plans		Discretionary Award Plan	
Group	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 2015	400,428	3.10	332,269	3.57	1,621,277	–	4,680,926	–	217,021	–	–	–
Granted	243,417	3.20	29,814	4.32	482,216	–	1,467,558	–	113,132	–	120,000	–
Expired/lapsed	(93,334)	4.28	(27,864)	3.67	(1,963)	–	(302,466)	–	(20,896)	–	–	–
Exercised	(142,924)	1.90	(120,407)	2.45	(610,652)	–	(1,425,169)	–	–	–	–	–
Outstanding at 31 December 2015	407,587	3.32	213,812	4.30	1,490,878	–	4,420,849	–	309,257	–	120,000	–
Outstanding at 1 January 2016	**407,587**	**3.32**	**213,812**	**4.30**	**1,490,878**	**–**	**4,420,849**	**–**	**309,257**	**–**	**120,000**	**–**
Granted	**331,153**	**2.15**	**276,570**	**2.93**	**434,168**	**–**	**1,979,324**	**–**	**–**	**–**	**200,000**	**–**
Expired/lapsed	**(292,814)**	**3.43**	**(89,973)**	**4.25**	**(161,492)**	**–**	**(999,869)**	**–**	**(55,478)**	**–**	**–**	**–**
Exercised	**(12,417)**	**2.40**	**(9,783)**	**2.47**	**(448,803)**	**–**	**(1,071,111)**	**–**	**–**	**–**	**–**	**–**
Outstanding at 31 December 2016	**433,509**	**2.39**	**390,626**	**3.39**	**1,314,751**	**–**	**4,329,193**	**–**	**253,779**	**–**	**320,000**	**–**

The weighted average share price at the date of exercise for the share options exercised during the year was £2.77.

26. Share-based payments continued

The movements in awards during the year for the Company are outlined in the table below:

	SAYE schemes		CSOPs		Deferred Share Plans		Performance Share Plans	
Company	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2015	245,129	3.16	198,588	3.58	1,043,109	–	2,159,047	–
Granted	139,398	3.20	13,588	4.32	331,415	–	652,418	–
Transferred	3,940	2.06	5,708	5.26	–	–	2,889	–
Expired/lapsed	(59,436)	4.29	(2,244)	5.09	–	–	(13,625)	–
Exercised	(70,601)	1.91	(77,150)	2.31	(397,751)	–	(630,784)	–
Outstanding at 31 December 2015	258,430	3.24	138,490	4.40	976,773	–	2,169,945	–
Outstanding at 1 January 2016	**258,430**	**3.24**	**138,490**	**4.40**	**976,773**	**–**	**2,169,945**	**–**
Granted	**202,149**	**2.15**	**128,605**	**2.93**	**247,778**	**–**	**781,028**	**–**
Transferred	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Expired/lapsed	**(166,489)**	**3.42**	**(49,972)**	**4.47**	**(151,984)**	**–**	**(609,746)**	**–**
Exercised	**(9,380)**	**2.41**	**(6,747)**	**2.47**	**(271,925)**	**–**	**(619,376)**	**–**
Outstanding at 31 December 2016	**284,710**	**2.39**	**210,376**	**3.55**	**800,642**	**–**	**1,721,851**	**–**

The Company does not have any awards under the HYS plan or Discretionary Award Plan.

The weighted average share price at the date of exercise for the share options exercised during the year was £2.75.

27. Share capital

Company	**2016 £M**	2015 £M
At 1 January	**23.4**	24.0
Own shares acquired	**–**	(0.6)
At 31 December	**23.4**	23.4

Share capital consists of 234,244,437 fully paid up shares (2015: 234,244,437 fully paid up shares) at a nominal value of 10 pence.

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 IPF 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 2016 was 12,271,406 (2015: 13,806,124).

28. Reconciliation of profit/(loss) after taxation to cash generated from operating activities

	Group		Company	
	2016 **£M**	2015 £M	**2016** **£M**	2015 £M
Profit/(loss) after taxation	**66.9**	62.5	**(17.2)**	(8.9)
Adjusted for:				
– tax charge/(credit)	**25.7**	37.7	**2.3**	(1.0)
– finance costs	**47.1**	41.6	**33.9**	36.3
– finance income	**–**	–	**(27.8)**	(34.2)
– share-based payment charge (note 26)	**3.5**	4.1	**2.5**	2.0
– depreciation of property, plant and equipment (note 14)	**10.1**	10.6	**0.1**	0.1
– loss on disposal of property, plant and equipment (note 3)	**0.8**	–	**–**	–
– amortisation of intangible assets (note 12)	**9.0**	4.8	**–**	–
– impairment of intangible assets (note 3)	**0.7**	4.6	**–**	–
Changes in operating assets and liabilities:				
– amounts receivable from customers	**(42.6)**	(58.5)	**–**	–
– other receivables	**(6.6)**	(1.1)	**(71.6)**	(42.1)
– trade and other payables	**19.2**	1.5	**57.8**	101.3
– retirement benefit obligation	**(1.1)**	(1.1)	**(1.1)**	(1.0)
– derivative financial instruments	**(0.2)**	(6.4)	**–**	(1.1)
Cash generated from operating activities	**132.5**	100.3	**21.1**	51.4

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	**2016** **£M**	2015 £M
In less than one year	**15.6**	13.8
In more than one year but not later than five years	**19.9**	21.6
In more than five years	**–**	7.2
	35.5	42.6

Other commitments are as follows:

Group	**2016** **£M**	2015 £M
Capital expenditure commitments contracted with third parties but not provided for at 31 December	**6.1**	7.8

The Company has no commitments as at 31 December 2016 (2015: £nil).

30. Acquisition of subsidiary

On 6 February 2015, the Group acquired 100% of the issued share capital of MCB Finance Group plc.

No hindsight adjustments have been made in the year in respect of this acquisition.

31. Post balance sheet events

In January 2017, the Group's Polish home credit subsidiary received adverse decisions from the Polish tax authority in respect of audits for 2008 and 2009. In order to lodge appeals against the decisions it was necessary to pay the amounts assessed. Accordingly, tax payments totalling £38 million were made in January 2017.

32. Contingent liabilities

The Group's home credit company in Poland, Provident Polska, has been subject to tax audits in respect of the company's 2008 and 2009 financial years. During these audits the Polish tax authorities have challenged an intra-group arrangement with a UK entity, and the timing of the taxation of home collection fee revenues.

These audits culminated with decisions being received from the Polish Tax Chamber (the upper tier of the Polish tax authority) on 5 January 2017 in relation to the 2008 financial year, and on 23 January 2017 in respect of the 2009 financial year. Provident Polska has appealed these decisions to the District Administrative Court, but has had to pay, since the Group's year end, the amounts assessed totalling approximately £38 million (comprising tax and associated interest) which was necessary in order to make the appeals. The Company strongly disagrees with the interpretation of the tax authority having received legal opinions from leading advisors as to the strength of our case.

The 2010 financial year is currently being audited by the tax authorities in Poland and a decision is awaited. In the event that the decision follows the same reasoning as for 2008 and 2009 a further c. £19 million would become payable. In addition, all subsequent years remain open to future audit, meaning that there are further significant uncertainties in relation to the amount and timing of potential additional future payments in relation to these periods. In the event that audits are opened in respect of some or all of these open periods, and similar decisions are reached, further amounts may be required to be paid, the timing of which would be dependent upon the timing of decisions made by the Polish tax authorities for these later periods.

In relation to these matters, no expense or provision has been made in these Financial Statements in relation to either the cash paid to the Polish tax authorities for the 2008 and 2009 financial years, or in relation to future decisions that may be received for later financial periods, as the directors do not consider that there will be any probable loss. This is on the basis of both the legal advice received, and the fact 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 will be 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 Company has a contingent liability for guarantees given in respect of the borrowings of certain other Group companies to a maximum of £211.5 million (2015: £203.7 million). At 31 December 2016, the fixed and floating rate borrowings under these facilities amounted to £96.5million (2015: £88.0 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 2016 was £nil (2015: £nil).

33. Related party transactions

IPF plc has various transactions with other companies in the Group. Details of these transactions along with any balances outstanding are shown below:

	2016			2015		
Company	**Recharge of costs £M**	**Interest charge £M**	**Outstanding balance £M**	Recharge of costs £M	Interest charge £M	Outstanding balance £M
Poland-Lithuania	**0.1**	**–**	**0.4**	0.1	–	0.7
Czech-Slovakia	**–**	**–**	**0.3**	–	–	0.2
Southern Europe	**–**	**–**	**–**	–	–	0.3
Mexico	**–**	**9.5**	**0.2**	–	10.3	0.1
Digital	**–**	**–**	**–**	–	–	–
Other UK companies	**8.0**	**16.5**	**99.8**	8.7	17.3	88.7
	8.1	**26.0**	**100.7**	8.8	27.6	90.0

The Group's only related party transactions are remuneration of key management personnel as disclosed in note 8.

Shareholder information

Financial calendar for 2017

1 March	Announcement of 2016 full year results
13 April	Ex-dividend date for final dividend
18 April	Record date for final dividend
3 May	AGM
12 May	Payment of 2016 final dividend
26 July	Announcement of 2016 half year report
7 September	Ex-dividend date for interim dividend
8 September	Record date for interim dividend
6 October	Payment of 2017 interim dividend

Dividends and dividend history

Year	Payment date	Interim dividend (p)	Payment date	Final dividend (p)	Total dividend (p)
2007	19 October 2007	1.90	23 May 2008	2.85	4.75
2008	3 October 2008	2.30	22 May 2009	3.40	5.70
2009	2 October 2009	2.30	21 May 2010	3.40	5.70
2010	8 October 2010	2.53	20 May 2011	3.74	6.27
2011	7 October 2011	3.00	1 June 2012	4.10	7.10
2012	5 October 2012	3.23	3 May 2013	4.51	7.74
2013	4 October 2013	3.80	9 May 2014	5.50	9.30
2014	3 October 2014	4.20	8 May 2015	7.80	12.00
2015	2 October 2015	4.60	13 May 2016	7.80	12.40
2016	7 October 2016	4.60	12 May 2017	7.80[1]	12.40[2]

1. Subject to shareholder approval on 3 May 2017.
2. Includes final dividend, subject to shareholder approval on 3 May 2017.

Payment of dividends

We can pay dividends directly into a shareholder's bank account. This ensures secure delivery and means that cleared funds are received on the payment date. For shareholders resident outside the UK, we offer dividend payments via Capita's International Payment Service to a number of countries which are paid in local currency. To receive more information or to change your preferred dividend payment method, please contact the Company's Registrar, Capita Asset Services.

Registrar

All administrative enquiries relating to shareholdings including transfers, dividend payments/reinvestments, lost share certificates, duplicate accounts and amending personal details should be addressed to the Company's Registrar whose details are below.

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300 (calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday, excluding public holidays in England and Wales).

Email: shareholder.services@capita.co.uk

www.capitaassetservices.com

Company number 6018973
Registered in England and Wales

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Shareholders can register for electronic communications by visiting the website www.myipfshares.com.

Why receive information this way?

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- 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 Capita. This service will require a user ID and password to be provided on registration.

Shareholder information online

For online information such as share price and capital gains tax information, please visit the Company's website at www.ipfin.co.uk.

ShareGift

If a shareholder has a shareholding which it is not economic to sell, he/she may wish to donate the shares to ShareGift, a registered charity (no. 1052686), which can amalgamate small holdings 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

Website

www.ipfin.co.uk

International
Personal
Finance

International Personal Finance plc

Number Three
Leeds City Office Park
Meadow Lane
Leeds LS11 5BD

Telephone: +44 (0)113 285 6700
Email: enquiries@ipfin.co.uk
Website: www.ipfin.co.uk

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