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Annual Report and Financial Statements 2019

# Responsible Sustainable Innovative

# Responsible, Sustainable, Innovative.

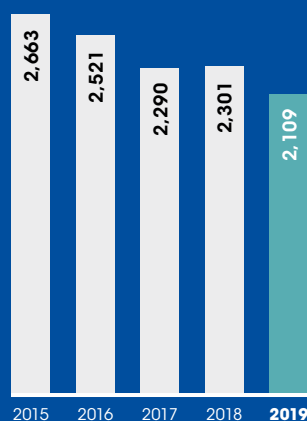
Our purpose is to make a difference in the lives of our customers by offering simple, personalised financial solutions. We lend responsibly to more than 2 million customers and play an important role in providing fair and transparent finance to those who might otherwise be financially excluded. We offer a unique combination of affordable home credit and innovative digital channels and products which are tailored to our customers' financial circumstances.

Find out more at [www.ipfin.co.uk](http://www.ipfin.co.uk)

## 2019 highlights

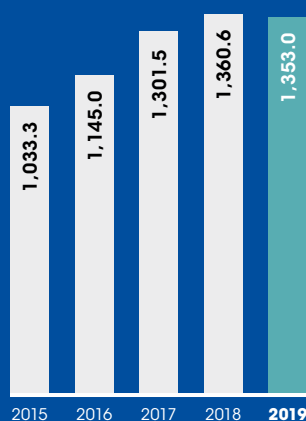
Customers ('000)

**2,109**



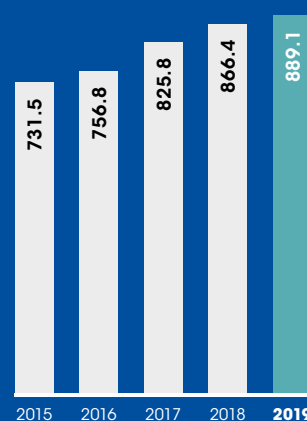
Credit issued (£m)

**£1,353.0m**



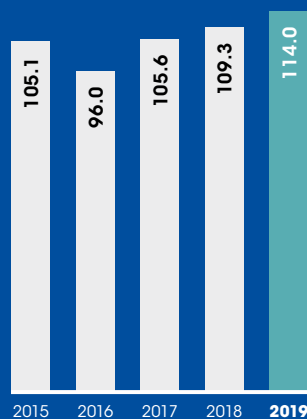
Revenue (£m)

**£889.1m**



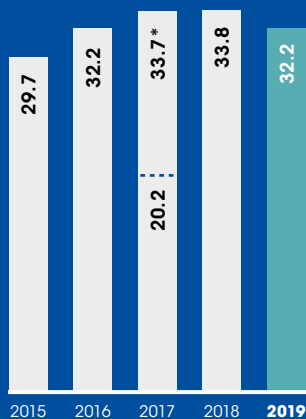
Profit before tax (£m)

**£114.0m**



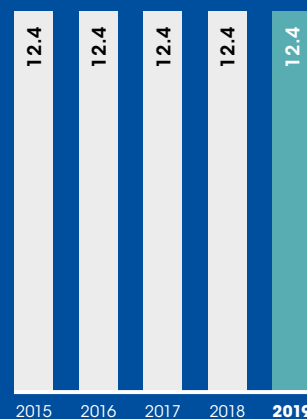
Earnings per share (p)

**32.2p**



Dividend per share (p)

**12.4p**



\* 2017 pre-exceptional EPS

## Strategic Report

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### Alternative Performance Measures

This Annual Report and Financial Statements provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this, we have included an accounting policy note on APMs on page 121, a reconciliation of the APMs we use where relevant and a glossary on pages 156 to 157 indicating the APMs that we use, an explanation of how they are calculated and why we use them.

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 2019 in order to present the underlying performance variance.

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



Follow us on Twitter and Instagram @ipfplc

[www.ipfin.co.uk](http://www.ipfin.co.uk)

# A leading international provider of consumer credit

We serve our customers with small-sum, unsecured consumer loans and lines of credit via two key channels – home credit and digital. Our customers are often underbanked or underserved by mainstream credit operators, and we meet their specific borrowing needs and financial circumstances responsibly.



## Home credit

**Our home credit channel serves customers who like the face-to-face service provided in their home by our agents and the support we provide if they face difficulties with repayments.**

### Products and features

- Home credit cash loans with agent service
- Money transfer loans direct to bank account
- Micro-business loans
- Home, medical and life insurances
- Provident-branded digital loans
- Weekly and monthly repayments
- Loan terms from 32 weeks to around three years
- Typical loan value £500

### Europe

Poland, Czech Republic, Hungary and Romania

### Mexico

[See pages 8-9](#)

## IPF Digital

**Our digital business serves customers who want an end-to-end digital service, choosing to take out credit and repaying online.**

### Products and features

- Credit line – revolving credit facility
- Mobile wallet being tested
- Instalment loans
- Monthly repayments
- Instalment loan terms up to three years
- Average customer outstanding balance c.£1,100
- Customers served online and through selected sales partners

### Established markets

Finland, Estonia, Latvia and Lithuania

### New markets

Poland, Spain, Australia and Mexico

[See pages 10-11](#)

## Home credit

### Europe

Poland, Czech Republic, Hungary and Romania

**1m**

-8%

Customers

**£452.2m**

-6%

Revenue

### Mexico

**795,000**

-13%

Customers

**£247.6m**

+5%

Revenue

## IPF Digital

**305,000**

+4%

Customers

**£189.3m**

+30%

Revenue

### Established markets

Finland, Estonia, Latvia and Lithuania

**150,000**

-4%

Customers

**£83.1m**

+5%

Revenue

### New markets

Poland, Spain, Australia and Mexico

**155,000**

+15%

Customers

**£106.2m**

+59%

Revenue

## Our investment case

We are a profitable, well-funded consumer credit business with a track record of providing affordable credit responsibly

### Highly-responsible consumer finance business

We are financially inclusive providing underbanked and underserved customers access to credit in a responsible way

**2.1m**

customers

[See pages 6-7](#)

### Focused business and financial strategy

Developing businesses earning good returns and maintaining a strong financial profile

**16.5%**

return on equity

[See pages 16-17](#)

### Effective risk management

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

**27.4%**

impairment % revenue

[See pages 44-52](#)

### Strong financial profile

Robust balance sheet and strong funding position

**£182m**

headroom on debt facilities

[See pages 39-43](#)

### Experienced management team

Broad range of financial services and digital lending experience

**27,000**

Employees and agents

[See pages 56-57](#)



# Focusing on our strengths to enable sustainable growth



**"Our focus on responsible lending and continued innovation of products and services tailored for our customers will deliver sustainable growth for the business."**

**Dan O'Connor**  
Chairman

## Welcome

Welcome to our 2019 Annual Report.

I am pleased to report that we continue to progress our multi-channel strategic agenda. In 2019, European home credit delivered excellent results, recovery is underway in Mexico home credit and IPF Digital delivered its maiden profit. The regulatory environment we face continues to evolve and we are adapting our business model to meet customer needs. I wish to congratulate our team for resolving the long-standing and significant tax audit challenge we faced in Poland for the years 2010 to 2017, and we expect this will now allow more flexibility in the refinancing of our main Eurobond, which we aim to complete by the end of 2020.

As I approach the end of my second term as your Chairman, I am pleased to announce that Stuart Sinclair will join our Board from March 2020 and succeed me as Chairman after the next AGM, subject to being elected. Having reflected on the success of the Group in 2019 in overcoming the significant tax challenge we faced in Poland, I believe that this is an ideal time to hand over the leadership of a Board that has an excellent mix of established and new talent. Stuart brings a wealth of experience in financial services and is ideally qualified to lead the Company through the next stage of its development.

At the core of the business, we are committed to responsible lending and making finance accessible to consumers who are less likely to be served by mainstream lenders and, with us, are able to build their credit history. We are proud of our 20-year heritage of serving home credit to millions of customers who value the face-to-face service provided in their home by our agents. At the same time, we are progressing well on building an innovative, digital future for lending alongside home credit.

## 2019 performance

We achieved a good financial performance in 2019 reporting a £4.7 million increase in profit before tax to £114.0 million. Credit issued was in line with 2018 and portfolio quality at Group level is good. I'm delighted to report that our European home credit businesses delivered a very strong financial performance driven by excellent operational execution. At IPF Digital we have made great strides in building the scale of the business over the past five years and, while there is work to be done to ensure credit quality is more consistent in our new markets, it is pleasing to see the delivery of its maiden profit in 2019. In Mexico home credit, we experienced a more challenging operational performance, however, I am confident that the improved discipline and refined growth strategy under our strengthened leadership

team is setting a solid foundation from which we can return to growth in 2020.

There were further regulatory changes in 2019. We adapted our business models in Finland and Latvia to meet the requirements of new consumer credit legislation in these markets. We also continue to engage with and monitor the industry-wide review on rebating practices in Poland. The Polish Ministry of Justice's draft bill to reduce the existing rate cap on consumer loans in Poland did not proceed through the legislative process in 2019 and is no longer on the current legislative agenda. However, this risk remains as a proposal and could be reintroduced in the most recent or a revised form and we continue to monitor closely. Further details on regulation can be found in the operational review on page 25.

I am also very pleased to see our businesses being recognised by external parties, as they continue to win awards and accolades for high-quality customer service, being a great place to work and a socially responsible business. This demonstrates the value of the services we offer and the contribution we make to society.

## Our purpose

### What we do and why we do it

We make a difference in the lives of our customers by offering simple, personalised financial solutions.

## Our strategy

Build long-term sustainable value for our stakeholders by delivering great customer service and strong returns in our European home credit operations to reinvest in modernising these businesses, and growing Mexico home credit and IPF Digital.

[See pages 16 to 17](#)

## Our values

Guide our actions and the way we do business.



### We are responsible

Being open and transparent in everything we do



### We are respectful

Treating others as we would like to be treated



### We are straightforward

Taking due care in all our actions and decisions

## Making a valuable contribution to society

[See pages 6 to 7](#)

### Dividend

Subject to approval by shareholders at our AGM in April, a final dividend of 7.8 pence per share will be payable, bringing the full-year dividend to 12.4 pence per share. As a percentage of profit after tax from continuing operations for 2019, it equates to a pay-out ratio of 38.4%, which is higher than our target pay-out rate of 35%.

### Our Board

To further strengthen the expertise of our Board, we will appoint two independent non-executive directors, Stuart Sinclair and Richard Holmes with effect from March 2020. Stuart, who is an experienced non-executive director, committee chair and senior independent director within the consumer financial services sector, will join the Remuneration and Nomination committees. As I mentioned in my introduction, he will succeed me as Chairman, subject to being elected at the AGM. Richard will join the Audit and Risk Committee and brings to our Board more than 40 years of broad international financial services experience.

### Board evaluation

During 2019, a Board and committee evaluation was undertaken. Facilitated externally, the focus was on strategy, board composition, corporate culture and regulatory matters. I am pleased to report the evaluation concluded that the Board, its committees and each of the directors continues to be effective and that our boardroom culture is conducive to creating a positive environment for participation and challenge by the non-executive directors.

### Our stakeholders

Bronwyn Syiek joined the Board in 2018 and was appointed to the role of workforce and stakeholder engagement director. The Board has continued to commit its attention to how we engage with our stakeholders and we have undertaken a comprehensive review of activities. We also invited contribution and expertise from both internal and external presenters to enrich and support our discussions, and build wider knowledge of stakeholder

needs. Some of the most pertinent discussions included regulator engagement around the Polish tax audit and the implementation of a new and more accessible whistleblowing service, 'Speak Up'. Further information on the work that the Board has undertaken during the year can be found on pages 65 and 66.

A highlight of my year, as always, has been meeting colleagues who are so passionate and enthusiastic about working for the business and serving our customers well. I was particularly impressed with the work our leadership teams do to develop and promote local talent, as well as embedding ethical values throughout the business. In October, the Board visited Hungary where we received updates from the local management team and heard, first hand, how the teams in Europe are working together under one leader to modernise the business and become even more customer focused. Understanding the views and concerns of our shareholders is also key. While most of the Board engagement with shareholders is through the Group Chief Executive Officer and Chief Financial Officer, I also spent valuable time with some of our major investors.

### Outlook

I would like to thank the Board and all our colleagues for their commitment and hard work during the year, and welcome those who have joined the team. We have a unique role to play in providing both home credit and digital credit to underserved customers in a sustainable way.

Looking ahead, while regulatory and competitive conditions remain challenging, we will continue to focus on delivering a positive experience to our customers and I am confident about the future of our business, not just for our customers, colleagues and shareholders, but for all our stakeholders.

### Dan O'Connor

Chairman

# Delivering our social purpose responsibly

Our purpose is to make a difference in the lives of our customers by offering simple, personalised financial solutions. We are committed to responsible lending, we provide an entry point to access mainstream consumer finance and we offer customers the opportunity to build a credit profile.



## 1. Advocating responsible lending

Our loans are granted using robust application and behavioural scoring systems supported by credit bureaux and, importantly, the evaluation by agents in our home credit businesses to ensure our loans are affordable to customers. Our commitment to responsible lending extends to our community programmes where our focus on financial literacy helps consumers make more informed borrowing decisions.

**64.6%**

Home credit customer retention

**54.3%**

IPF Digital customer retention

## 2. Providing access to regulated credit

As an established, regulated and ethical business we protect our customers from illegal lenders and the unregulated excesses of the 'grey' market by lending in a transparent and responsible way. We are committed to a corporate culture that encourages ethical behaviour and puts our customers' interests at the heart of everything we do.

**96%**

employees completed business ethics training

**91%**

agents completed business ethics training

## 3. Contributing to the wider economy

We are an active corporate citizen with more than 27,000 employees and agents contributing to their wider economies through taxes and spending on goods and services. We are also committed to investing time and other resources to support education and social welfare programmes, as well as contributing to enhance the financial knowledge of people in the communities in which we operate.

**£183m**

total taxes paid\*

**£953,000**

invested in our communities

\* Comprising £97 million taxes paid (representing a cost to the Group) and £86 million taxes collected on behalf of governments such as payroll taxes and employees' social security contributions.



**"I have had three loans with Provident and everything was provided and explained to me by the same agent who was patient and supportive."**

Joanna, customer in Poland

**"Provident provides loans quickly to customers who have a lower income and very often are not able to borrow from other financial companies. It makes me glad when I can support people who nobody else will help."**

Ana-Maria, an agent in Romania

**"Our award-winning financial literacy programme, Cash Crew, helps young people to manage their finances. During 2019 we released new videos and blogs to start the discussion on financial management, presenting engaging content in a straightforward way. So far we've reached 1.2 million people."**

Katerina, external communications and sustainability specialist, Czech Republic

## **Our responsible lending principles**

IPF is an ethical business and we engage with our customers in a responsible way. Responsible lending is core to the sustainability of our business model and is embedded in everything we do, from strategic decision-making and product design to the millions of everyday interactions we have with customers each year.



### **Advertising and marketing**

We advertise our products in a clear and appropriate manner.



### **Affordability**

We thoroughly assess a customer's ability to repay the loan. We won't offer a another loan to a customer if we think it will be detrimental to them.



### **Product suitability**

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



### **Pricing**

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



### **Customer communication**

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



### **Collections and debt recovery**

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

# Serving our customers well

We are committed to understanding our customers' needs, delivering a positive customer experience and developing relationships that make a positive difference in people's lives – whether they are looking for a loan served in their home by an agent or credit delivered online to their bank account.



**"I like my loans from Provident as the process is simple and the repayments are collected at my house, which is very convenient."**

Janusz, customer in Poland

## Home credit

### Creating personal, trusted relationships with our customers

Our customers are looking for simple, transparent, small-sum loans with fixed, affordable repayments to help them manage the ups and downs of their weekly budget, or to buy one-off items. Our customers have low, fluctuating incomes and limited or no credit history, which means they are often financially excluded by mainstream lenders. Our customers value the personal, face-to-face service provided by agents as well as the convenience of being served in their home. They also like the fact that they can build a credit profile and that we work with them to get back on track if they miss repayments. The home credit business model has operated successfully for more than 130 years and remains a relevant and important component of the consumer finance market.

### Typical customer features

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

### How customers use their loans

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

**"This is my second loan from Provident. I only use it when something unexpected happens – the last time I needed a new fridge."**

Weronika, customer in Poland

## The home credit customer journey



### Attracting customers

- Leading, well-recognised brand
- Word of mouth recommendation
- Targeted marketing – tv, radio and digital
- Repeat lending offers to existing customers

**“I trust people more than the internet so I talked to a Provident agent before I took a loan.”**

**Robert, home credit customer in Hungary**



### Loan request

- Simple and straightforward
- Online decision in principle
- Data-driven and face-to-face checks
- Responsible repeat lending offers to existing good-paying customers

**“Provident has always been there when I needed help.”**

**Vlad, home credit customer in Romania**



### Credit scoring

- Careful affordability and creditworthiness assessments
- Application and behavioural scorecards
- Credit bureaux
- Face-to-face meeting with agent
- ‘Low and grow’ approach – new customers start with small loans
- Help build credit score to access future credit

**“What I like the most is the personal service they give me. A year ago, I fell behind with my instalments and we agreed how I would get back on track. They understood the moment I was going through.”**

**Martina, home credit customer in Mexico**



### Loan issued

- Agent service: cash loan delivered to customer’s home
- Money transfer: loan delivered to customer’s bank account
- Agents paid commission primarily on collections



### Repayments and managing arrears

- Agent-customer relationship supports regular repayments
- Flexible, forbearance approach – help customers facing difficulty
- Ongoing contact – face-to-face and central call centres
- Sale of non-performing loans to external debt recovery operations

**"I like the mobile app. It is more convenient, and an easy way to transfer my money and pay with my card."**

Sophia, IPF Digital customer in Finland

**"I get a solid customer service and good customers are rewarded by offering a larger limit at just the right time."**

Johannes, IPF Digital customer in Finland

**"Thanks to you I managed to cover some unexpected expenses."**

Maria, IPF Digital customer in Mexico

## The IPF Digital customer journey



### Attracting customers

- Digital marketing strategies and traditional media
- Customer relationship management activities to generate repeat business



### Loan request

- Simple, straightforward application process
- Online or via sales partners including online brokers and comparison sites



### Credit scoring

- Rapid, centralised, credit scoring
- Credit bureaux
- Internal databases and statistical models
- 'Low and grow' approach – new customers start with small loans
- Affordability checks prior to approval



### Credit issued

- Money transferred to customer's bank account
- Customer notified by text on transfer



### Repayments and managing arrears

- Active communications process to remind and encourage repayment
- No refinancing or extension of delinquent loans
- Final written demand at around 60 days past due
- Sale of non-performing loans to external debt recovery operations

**"I like the fact that I can ask questions and get help when I need it."**

Francisco, IPF Digital customer in Mexico

**"I handle all my financial matters with my mobile phone so it's great they have developed all these functionalities."**

Emilia, IPF Digital customer in Finland



## Digital

### Fast, efficient and quality service every time

The rapid digitisation of our day-to-day lives has resulted in an increasing number of consumers wanting to borrow online. Our innovative digital offering of credit line, mobile wallet and instalment loans meets the needs of these consumers precisely with an end-to-end digital customer journey and positive customer experience.

### Typical customer features

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

### How customers use their loans

- Holidays
- Home improvements
- Healthcare
- Household goods



# Creating value for our stakeholders

By making a difference in the lives of our customers with simple, personalised finance, we generate further long-term value for all our stakeholders.

## What we do

---

We provide simple, personalised financial solutions through a unique combination of affordable home credit and innovative digital channels and products which are tailored to our customers' financial circumstances.

### Key resources

#### Talented people

Our ability to serve our customers well relies upon having highly-engaged, skilled, committed and knowledgeable employees and agents who adhere to our values and ethics. This allows us to collaborate fully and earn and maintain the trust of our stakeholders.

#### Technology

Stable and scalable technology is fundamental to driving efficiency through agent mobile technology, making robust credit decisions and supporting digital lending growth. Leveraging data capabilities will also unlock significant opportunities.

#### Strong financial position

We manage our financial resources effectively to sustain the business, fund investment in growth and modernisation, and to generate good returns for our investors.

#### Well-known brands

Our brands are well-known and trusted by our 2.1 million customers in 11 markets.

## What makes us different

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Being the only business to offer both home credit and digital loans, we have a differentiated proposition from that of other credit providers.

### Home credit

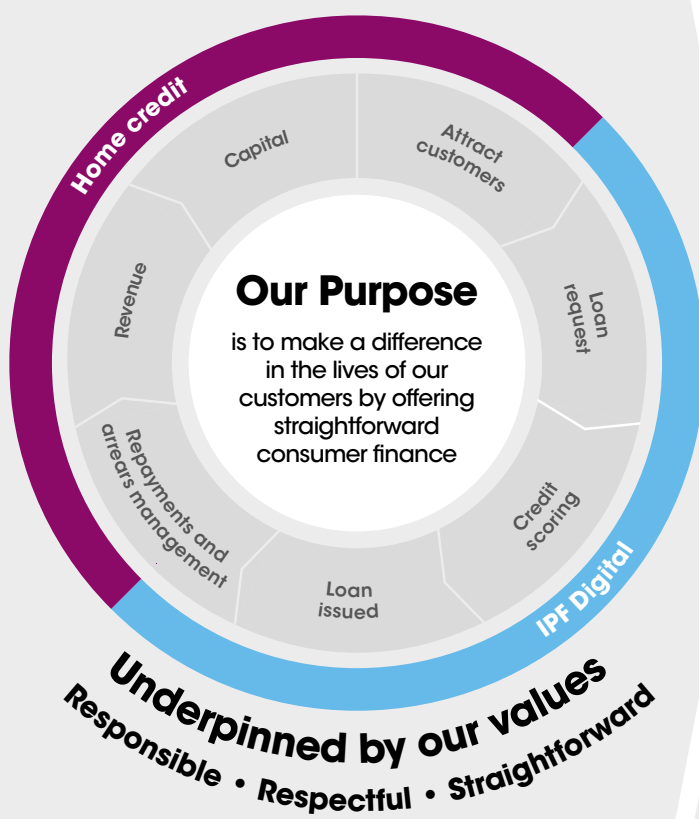
Our home credit business model is different because our agents connect us to our customers by providing a personal service in our customers' homes every week or month. The home credit model is very hard to replicate.

### IPF Digital

Our digital business model meets the needs of a growing number of customers in our consumer segment who want affordable credit that can be managed online. We offer innovative and flexible products, with a great customer service.

## How we deliver

Our profit is generated by lending responsibly while managing the business efficiently. Our home credit businesses generate a high proportion of Group revenue, primarily through the agent service model, while IPF Digital delivers a smaller but growing contribution.



## Value created for stakeholders

We create value by building close, long-term relationships with our customers. As a trusted, responsible and successful business, we also make a valuable contribution to the communities we serve.

### Our customers

We enable our customers, who might otherwise be financially excluded, to access credit for the things they need.

**c.£500**

credit issued per home credit customer

### Employees and agents

We help our people develop and have a fulfilling career in our organisation.

**27,000**

people across the business

### Regulators and legislators

We engage with regulators to support sustainable financial markets.

**33**

sector association memberships

### Communities

We enable financial inclusion and invest in our communities.

**£953,000**

invested in our communities

### Shareholders and investors

We operate a successful business generating long-term sustainable returns.

**12.4p**

Dividend per share

For more about our multi-channel strategy, see pages 16-17

For more about our principal risks, see pages 44-52

# Understanding our markets

Our strategic priorities are influenced by key market trends. Technical advances and innovation in everyday life are changing how customers expect to be served. Competition is stabilising and increased regulatory oversight remains the most influential force on the consumer financial sector.

## Steady demand for unsecured credit

### Increase in consumer credit demand

Unsecured consumer lending continues to grow at a steady rate.\*

### Digital lending driving growth

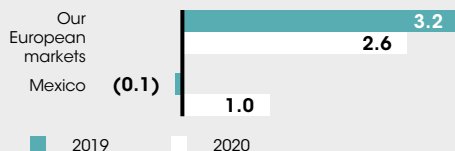
Demand for digital offerings is the driving force for steady growth in unsecured consumer credit.

### Positive GDP growth

Positive GDP growth is forecast in all our markets in 2020.

\* Deloitte, Future of Credit in Europe 2019

### GDP growth (%)



Sources: Citibank and European Commission

### Our response

#### Unique, financially inclusive channel offering

We provide the unique consumer lending channel combination of home credit loans delivered by agents and digital credit offerings for those who want to manage their finances online. We are committed to improving access to affordable credit to our target segment of customers.

### Related principal risks



## Growing preference for digital options

### Digital lifestyles increasing customer experience expectations

Digital lending and mobile banking applications have raised the bar for speed and convenience of customer journeys. Consumers expect a frictionless experience in all channels, including mobile.

### Home credit remains very important in a digital world

Home credit provides people who might otherwise be financially excluded with access to regulated credit.

# 4.1bn

internet users worldwide

# c.1.6bn

estimated mobile point of sale payment users by 2023

Source: www.statistica.com

### Our response

#### Technology driving customer experience

We are taking advantage of growth opportunities by investing in IPF Digital and offering Provident-branded digital loans. We are also using data analytics to make smarter lending decisions and improve customer journeys in our home credit and digital businesses.

### Related principal risks



[Read more on our principal risks on pages 44-52](#)

## More stable competitive landscape

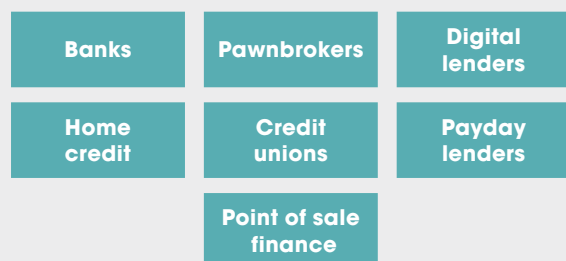
### Increased regulation has stabilised competition

Some competitors who also serve our customer segment are struggling to operate in a tougher regulatory environment.

### Limited direct home credit competitors

Competition is focused on introducing digital lending offerings.

#### Our competitors



#### Our response

##### Successfully adapting to change

The consumer finance sector is highly competitive. We continue to develop new products and value-added services to gain a competitive edge.

#### Related principal risks

2

## Increased regulatory oversight

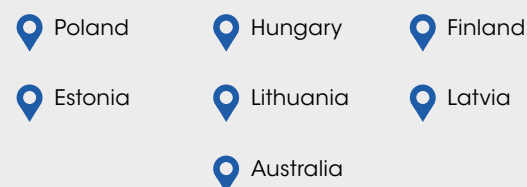
### Regulatory risk will continue

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

### Regulators focused on price and affordability

In some of our markets, new regulations have driven down prices and restricted loan values that customers are able to borrow.

#### Our markets with rate caps



#### Our response

##### Always compliant with regulation

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

#### Related principal risks

1

3

7

# Our multi-channel strategy

Our strategy centres on providing a positive customer experience and generating strong returns in our European home credit businesses to reinvest in building a long-term sustainable future for these operations, growing Mexico home credit and IPF Digital, and delivering progressive returns to our shareholders. In 2019, we made excellent progress in our European home credit and established digital businesses, and focused on improving operational execution in Mexico home credit and managing credit risk in IPF Digital's new markets.

	Strategic Priorities	2019 Progress	2019 Challenges	
Reinvesting in growth	<b>IPF Digital</b>	<ul style="list-style-type: none"> <li>• Provide superior customer experience through innovation</li> <li>• Build scale and leverage data</li> <li>• Demonstrate ability to make a return</li> </ul>	<ul style="list-style-type: none"> <li>• Successfully delivered maiden profit</li> <li>• Good top-line growth</li> <li>• Mobile wallet being tested</li> </ul>	<ul style="list-style-type: none"> <li>• Worse-than-expected credit quality in new markets led to slower growth</li> <li>• Responded to new rate caps in Finland and Latvia</li> </ul>
	<b>Mexico home credit</b>	<ul style="list-style-type: none"> <li>• Expand geographical footprint</li> <li>• Build micro-business loans channel</li> <li>• Improve operational efficiency and customer penetration rates in selected longer-established branches</li> </ul>	<ul style="list-style-type: none"> <li>• Appointed experienced country manager</li> <li>• Strengthened management team</li> <li>• Improved cost efficiency</li> <li>• Opened five new branches</li> </ul>	<ul style="list-style-type: none"> <li>• Weaker collections</li> <li>• Credit issued contracted as we prioritised credit quality over growth</li> <li>• Operational actions implemented to improve credit quality</li> </ul>
Generating returns	<b>European home credit</b>	<ul style="list-style-type: none"> <li>• Provide great customer experience and long-term sustainable future</li> <li>• Deliver strong returns</li> <li>• Protect the business model</li> <li>• Leverage the Provident brand for digital</li> </ul>	<ul style="list-style-type: none"> <li>• Strong financial performance</li> <li>• Slowed rate of customer contraction</li> <li>• Continued excellent credit quality</li> <li>• Good growth of Provident-branded digital offering in Poland</li> <li>• Invested in agent mobile technology including roll-out of new collections functionality</li> </ul>	<ul style="list-style-type: none"> <li>• Contracting customer numbers</li> </ul>

[Read more on our 2019 key performance indicators on pages 22-23](#)



## Strategic KPIs

**305,000**

customers

**8%**Year-on-year  
credit issued**30%**

Year-on-year revenue

**45.0%**

impairment % revenue

**45.7%**

cost-income ratio

**£3.2m**

profit before tax

## 2020 Focus

- Continue to provide great customer experience through innovation
- Build scale and leverage data
- Improve new market credit performance then reignite growth
- Manage transition to new rate cap regime in Latvia and Finland
- Continue to test mobile wallet

**795,000**

customers

**-12%**Year-on-year  
credit issued**5%**

Year-on-year revenue

**41.3%**

impairment % revenue

**37.6%**

cost-income ratio

**£10.5m**

profit before tax

- Continue to provide a great customer experience
- Optimise existing expansion footprint
- Manage longer-established branches for returns
- Develop micro-business loans channel
- Improve portfolio quality before returning to growth mode

**1m**

customers

**1%**Year-on-year  
credit issued**-6%**

Year-on-year revenue

**12.4%**

impairment % revenue

**42.7%**

cost-income ratio

**£115.1m**

profit before tax

- Continue to provide a great customer experience
- Deliver strong returns
- Protect the business model
- Leverage the Provident brand for digital
- Stabilise customer numbers
- Continue agent mobile technology investment

[Read more in our operational review pages 24-29](#)

# Building a responsible, sustainable and innovative business



**“We delivered a good financial performance in 2019 driven by European home credit and our established digital businesses. IPF Digital achieved its maiden profit, and we are addressing the challenges in Mexico home credit and our new digital businesses to improve performance.”**

**Gerard Ryan**  
Chief Executive Officer

## **Q. How do you contribute to your customers' lives?**

This is a very interesting question and one I am being asked more and more, mainly by politicians, regulators and the financial media. People are increasingly interested in the role a business plays in society, not just how it performs financially. We play a pivotal role in the consumer finance sector, making credit accessible to consumers who are underbanked or underserved, giving them an opportunity to manage their financial needs effectively while building a credit profile that will help them to obtain a broader range of financial services in the future. Ultimately, we do this by building relationships with our customers, either through our home credit agent model with its culture of forbearance when customers find repayments difficult, or through our IPF Digital model where the absolute focus is on customer service and innovation.

## **Q. How would you summarise performance in 2019?**

The Group delivered a good financial performance, but we got there in a way that I did not anticipate at the start of the year. Our European home credit business exceeded our expectations and delivered an excellent operational and financial performance. As planned, IPF Digital

delivered its maiden profit but performance in our Mexico home credit business was challenging and I would like to have seen more consistent credit quality in our new digital markets.

## **Q. What were 2019's highlights and challenges?**

On the trading front, the clear highlight has got to be the performance of European home credit, a business that has been in existence for more than twenty years, has seen many significant regulatory challenges, the entry of hundreds of new digital competitors and yet delivers for its customers and our shareholders every year. We delivered growth in credit issued, credit quality remains excellent and we slowed the rate of customer contraction year on year. At the same time we continued to drive technological change to improve our customer experience and make the business more efficient.

The biggest challenge we faced was in our Mexico home credit business where credit quality deteriorated as a result of poorer collections. To address this issue, we strengthened our leadership team, focused on collections rather than sales, tightened credit scoring and reorganised part of our field sales structure. We also reviewed and refined Mexico's strategic framework. I am pleased to say recovery is underway and we have

seen some improvements in our performance indicators as a result of these changes. This market continues to present fantastic opportunities and we are looking to recommence growth in 2020.

In IPF Digital, we had stand-out performances from our established markets in the Fenno-Baltic region and began to test our first mobile wallet offering in Finland. We experienced some challenges in our new digital markets, in particular Poland and Spain, where we slowed our rate of credit issued in order to improve credit quality. And certainly, one of our biggest highlights has to be IPF Digital meeting its commitment to deliver a maiden profit.

My answer would be incomplete if I did not mention the very positive settlement of the tax audit issue for years 2010 to 2017. This resolved a significant tax risk, which has cast a cloud over our business for a considerable period. Further information on performance in 2019 is included in the operational review on pages 24 to 29.

## **Q. How do you manage regulatory challenges?**

We are fully supportive of regulation that protects consumers and ensures that only reputable businesses are permitted to provide them with financial products and services.

## What are your strategic priorities for 2020 and how will you drive growth?

Without doubt, our first priority is to get our Mexico home credit business back in growth mode. Mexico is a huge opportunity for us because there is such an overwhelming need for small-sum credit provided in a responsible and transparent way. To restart growth, we need to improve our portfolio quality through better collections as well as product profiles that fit more comfortably with our customers' repayment needs. In addition, we are focusing on improved operational efficiency and I am confident that the strengthened leadership team in Mexico will deliver this.

In IPF Digital our priority is to improve our scorecard effectiveness in Poland and Spain in particular so that we can accelerate their growth. As we achieve this, our new markets, which are Poland, Spain, Australia and Mexico, will move towards profitability and offset the reduced returns in the established markets resulting from changed regulation in 2019. As for products that deliver an enhanced customer experience, we plan to roll out our new mobile wallet into more markets to support our growth plans.

One of our strategic themes that will continue into 2020 is our investment in technology to drive efficiency and innovation. This is particularly the case in our European home credit business where we are improving the customer experience through our agent mobile technology which, in turn, is driving down our cost base.



We have a very clear regulatory stakeholder engagement strategy and our local leadership teams and I maintain an active dialogue with regulators in each of our markets. Our aim is to help them understand how our business model works and the essential role we play in society. When regulators are preparing changes to the rules that govern how our markets work, we actively contribute data and insights based on our unique knowledge of the consumers we serve.

### Q. Are you concerned about increased regulatory risk?

Changes in regulation risk are a constant, particularly in Europe, and we are not complacent about the potential risk. I believe we operate in a very transparent manner and provide a valuable service to a specific consumer segment that deserves to have access to affordable credit. Wherever we get an opportunity to explain this to regulators we get a fair hearing. My concern increases where political agendas drive regulatory change and for that reason, we have redoubled our efforts to explain our purpose to politicians in the communities we serve.

### Q. Is there an update on the proposed Polish rate cap?

The draft proposals were revised and adopted by the Polish Government during 2019. However, they were not passed before the general election in Poland in November and as such the proposals are no longer on the current legislative agenda. It is possible that the proposals could be reintroduced and so we continue to engage with all key stakeholders to demonstrate that there is a clear value of the services we offer to consumers in Poland.

### Q. What other regulations should we be aware of?

The Polish competition and consumer protection authority is conducting a review of rebating practices by banks and other consumer credit providers, and this includes our Polish home credit and digital lending businesses. It is likely that new rebating practices will evolve in Poland and when we have clarity on the new emerging standards, we will adapt





## Customer

# Q&A

### Tell me about yourself

I am Blanca and I live in Agua Azul, Mexico. I have three children and as an independent woman I am happy that I raised them on my own. I have always worked hard – helping my parents' family business and, after studying, I became a technical secretary, then a maid for a large medical warehouse, but sometimes you don't have the money you need.

### Why did you turn to Provident?

My daughter stayed at home when I worked, then we saw a technical school in the town centre. It was a lot of money for her to attend but I remembered I'd heard about Provident personal loans. I didn't think they would give me a loan because they didn't know me, but I had the courage to apply and Provident said yes.

### How did you use your loan?

I used the loan to fund my daughter's education. I was so pleased to go to the school with her and be able to pay. It's an amazing feeling that someone trusted me, that someone held my hand.

### How important has the loan been to you?

I'm forever thankful for the loan. If you ever need a loan, it's going to help you get ahead.

**We talk with one of our home credit customers, Blanca, about her experience of taking a loan with us which helped fund her daughter's education.**

our Polish businesses to conform their rebating practices accordingly. Further details on this matter and other regulatory developments are included in the operational review on page 25.

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### Q. Do you believe you are building a sustainable business at IPF?

Absolutely, and it is something that we are committed to fully. We are approaching it from a number of different angles, but primarily through investing resources to better understand our customer needs, improving their experience with us, expanding the products available and the number of channels through which they can be accessed. I want us to get to a point where our brands are mentioned automatically when our customers talk about fairness, transparency and positive customer experiences.

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### Q. Can you give some insight into the IPF culture and what it means to you?

The development and evolution of our culture is vital to the delivery of our strategy and the sustainability of the business. I have always believed that for a business to thrive, it must have a core set of values that is known by everyone in the business and is the foundation on which everything is built. Given the particular customer segment we serve, it is even more important that we showcase these values to everyone we come into contact with. My colleagues believe in providing credit responsibly, treating our customers with respect in every interaction we have and always being straightforward in our dealings with them. We spend a lot of time and resource internally to ensure that this is always the case and feedback from customers reflects this. We also provide training for all of our colleagues and agents on the ethics of building a sustainable business.

Throughout the year, I visited most of our businesses and I was delighted to see the amount of personal time and energy our colleagues invest in doing good in the communities we serve. I can see that these personal initiatives are the most effective way to build a sustainable business by always having people whose hearts are in the right place.

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### **Q. What is the outlook for IPF?**

We are confident that our strategy will continue to support growth by successfully addressing the demands of our core stakeholders. We will continue to invest in modernising our European home credit businesses, enhancing our offering to attract and retain customers and improving efficiency. In Mexico home credit we are focused on driving greater execution consistency and improving operational performance before recommencing growth and delivering progressive improvements in profit. In IPF Digital we will continue our journey of building a profitable fintech business by focusing on continued portfolio growth balanced with improved credit quality, while creating innovative products and services to deliver an enhanced customer experience and so support our growth plans.

I would like to close my 2019 review by thanking all my colleagues who have contributed to this year's performance, always displaying great commitment to our customers and upholding our values of being responsible, respectful and straightforward. It is this approach and our passion to serve our customers well that we believe will deliver further sustainable growth and continued returns into the future.

I would also like to say thank you to our Chairman, Dan, for his invaluable contribution to IPF and for the support he has given me during his time leading the Group.

#### **Gerard Ryan**

Chief Executive Officer



## People Q&A

### **What has been your career path so far?**

I joined Provident in Mexico after working in the consumer finance sector in Spain for a number of leading retail, online and banking businesses. I moved to European home credit in March 2019 and am now responsible for our call centre operations in Poland, the Czech Republic, Hungary and Romania.

### **How does your role help customers?**

I originally began my career in home credit because the business genuinely makes a great difference to our customers' lives – that was the case in Mexico and I see that here in Europe too. Every day, my teams are speaking to thousands of customers who are looking to borrow money and we take great care in how we lend to these people.

### **And how does your talent help the business?**

It is a privilege to manage call centres in four countries. It is a chance to share different approaches from other countries and this collaboration means we are moving forward more quickly. I come from a proactive 'can-do' culture and we encourage new ideas to improve our service so our people can help our customers. I know that our customers are getting a great experience.

**We spoke to Maria Jose Garcia, European Head of Customer Service Centres, who has brought her customer experience and marketing expertise to Europe following a career at Provident in Mexico.**

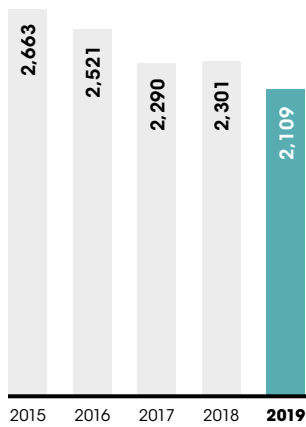


# Progress against strategy

Each of our KPIs is linked to our multi-channel strategy and monitored closely to measure how we are progressing.

## Customer numbers ('000)

**2,109**



### Performance

Defined as the total number of customers across the Group. In 2019, customer numbers reduced year on year by 8% with growth delivered by IPF Digital more than offset by reductions in European and Mexico home credit.

### Why we measure it

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

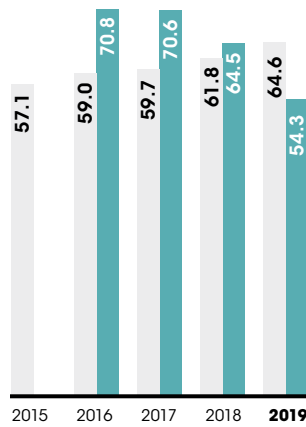
### Looking ahead

We expect to see further customer growth in IPF Digital, a return to growth in Mexico home credit and to stabilise customer numbers in European home credit.

## Customer retention (%)

**64.6%** **54.3%**

Home credit IPF Digital



### Performance

This is defined as the number of customers who have three or more loans with our business. In our home credit business, customer retention improved slightly. In IPF Digital, customer retention reflects the larger proportion of new customers being served by this growth business.

### Why we measure it

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

### Looking ahead

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

## Employee and agent retention (%)

**67.8%** **73.2%**

Agent Employee



### Performance

Defined as the proportion of employees and agents who have worked with us for more than 12 months. Agent retention was stable in 2019. We continue to focus on retention and, despite a challenging global employment landscape we retained critical skills and people. The change in employee retention was driven by territory management changes in Mexico to optimise performance and returns.

### Why we measure it

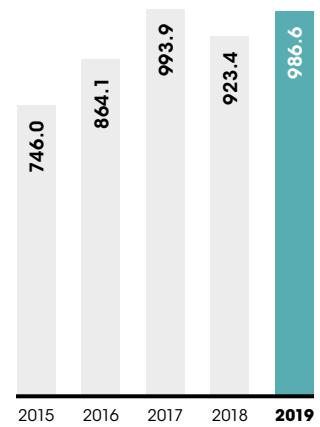
Higher and stable retention of our people correlates with providing high levels of customer service and a strong financial performance.

### Looking ahead

We aim to improve employee and agent retention through the deployment of people experience programmes, and acting upon the feedback from our Global People Survey.

## Average net receivables (£m)

**£986.6m**



### Performance

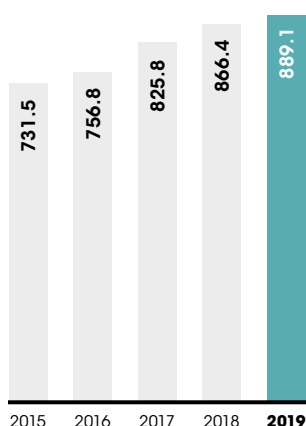
This is defined as the average amounts receivable from customers translated at constant exchange rates. Average net receivables increased by 8% in 2019 with growth driven primarily by IPF Digital.

### Why we measure it

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

### Looking ahead

We expect average net receivables will continue to increase as we grow the business.

**Revenue (£m)****£889.1m****Performance**

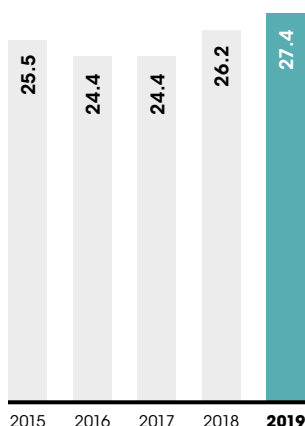
Revenue is defined as income generated from customer receivables. In 2019, revenue increased by 3% (at CER) driven by growth in IPF Digital and Mexico home credit, offset partially by European home credit.

**Why we measure it**

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

**Looking ahead**

We expect revenue will continue to increase as we grow the business.

**Impairment as a percentage of revenue (%)****27.4%****Performance**

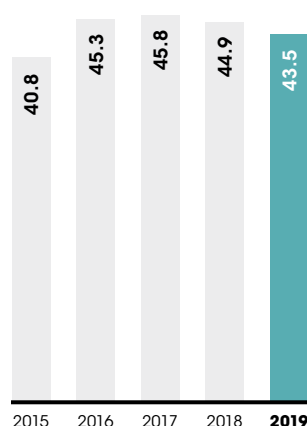
The amount charged as a cost to the income statement as a result of customers defaulting on contractual loan payments. At Group level, credit quality remains good and is in the middle of our target range of 25% to 30%. We are focused on improving credit quality in Mexico home credit and IPF Digital's new markets.

**Why we measure it**

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

**Looking ahead**

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

**Cost-income ratio (%)****43.5%****Performance**

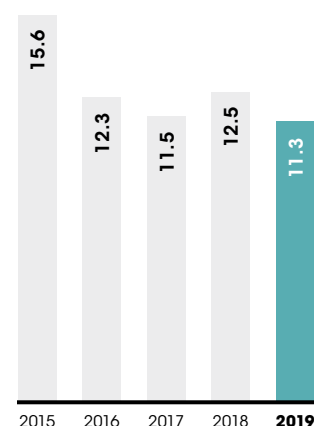
The cost-income ratio is defined as the direct expenses of running the business (excluding agents' commission) as a percentage of revenue. The cost-income ratio improved reflecting significantly improved operating leverage in IPF Digital and an improvement in Mexico home credit, partially offset by European home credit.

**Why we measure it**

To ensure that we focus on running our business in the most efficient manner because the cost-income ratio is a key driver of profitability.

**Looking ahead**

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

**Return on assets (ROA) (%)****11.3%****Performance**

ROA is defined as profit before interest after tax, and divided by average net receivables. Group ROA reduced as a result of a 6 ppt increase in the tax rate.

**Why we measure it**

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

**Looking ahead**

We aim to generate progressive improvements in ROA as our growth businesses mature and deliver improving returns.

# Group performance overview

**We delivered a good financial performance in 2019 increasing profit before tax to £114.0 million, driven by strong operational execution in European home credit and our established digital businesses.**

## Group performance overview

We delivered a good financial performance in 2019 reporting a £4.7 million increase in profit before tax to £114.0 million. This reflects an increase in like-for-like profit before tax of £6.9 million, driven by a strong performance by European home credit and a maiden profit in IPF Digital, offset partially by lower profit in Mexico home credit. Weaker FX rates impacted the overall result by £2.2 million.

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

Customer numbers reduced year on year by 8% with the growth delivered by IPF Digital more than offset by reductions in European and Mexico home credit. Credit issued was in line with 2018 reflecting growth in IPF Digital and European home credit, offset by a contraction in Mexico home credit. Average net receivables increased by 8%, and revenue grew by the slower rate of 3% driven by our focus on lower yielding, higher quality customers in European home credit.

At Group level, credit quality remains good and annualised impairment as

a percentage of revenue at 27.4% is in the middle of our target range of 25% to 30%. The cost-income ratio improved year on year by 1.4ppts to 43.5%, reflecting significantly improved operating leverage in IPF Digital and an improvement in Mexico home credit, partially offset by European home credit where the impact of lower revenue yields offset a reduction in the cost base.

## Market overview

The market for consumer credit is growing steadily driven by increasing numbers of customers borrowing from and transacting with financial services providers online. Customer expectations have also risen in terms of their customer journey, demanding faster, more convenient and personal offerings.

Macroeconomic conditions in all our European markets are expected to deliver positive GDP growth, low unemployment and moderately increasing inflation in 2020. While GDP growth in Mexico is estimated to have contracted during 2019, it is forecast to return to modest growth in 2020.

Increasing regulation in our sector has resulted in more stable levels of competition in Europe as some

lenders have found it more difficult to operate in tougher regulatory environments. While market dynamics and customer preferences are changing, we continue to see home credit co-existing with digital credit offerings as the combination of the two can serve the vast majority of the customers in our segment. In particular, our home credit model with the involvement of an agent at the customer's home, allows us to gain a unique and in-depth understanding of a customer's financial circumstances and propensity to repay. As a result, we can lend with more confidence to creditworthy customers where a remote lending business cannot.

## Strategy update

We provide small-sum, unsecured personal loans to customers who are either underbanked or underserved by mainstream operators. Our strategy is to build a long-term sustainable future by providing consumers in our segment with a wider choice of channels, products and price points. Our European home credit businesses are the financial foundation of the Group and our strategy centres on providing a great customer experience and generating strong returns. We use these returns to invest in modernising

	2018 profit £m	Like-for-like profit movement £m	Stronger/weaker FX rates £m	2019 profit £m
European home credit	113.8	4.5	(3.2)	115.1
Mexico home credit	15.7	(6.2)	1.0	10.5
IPF Digital	(5.6)	8.8	-	3.2
Central costs	(14.6)	(0.2)	-	(14.8)
<b>Profit before taxation</b>	<b>109.3</b>	<b>6.9</b>	<b>(2.2)</b>	<b>114.0</b>

the European home credit businesses, growing Mexico home credit and IPF Digital, and delivering returns to our shareholders. We continue to improve our service and effectiveness by investing in technology and our people in both the home credit and digital businesses.

Our European home credit business is making excellent progress in providing a more modern and affordable service to its customers, and during the year we developed further functionality for our agent mobile technology, and launched a number of new products and channel offerings. We also increased the number of customers choosing to take our Provident-branded digital offering in Poland. The business delivered a very strong operational and financial performance in 2019, reporting like-for-like profit growth of £4.5 million. Credit quality is excellent and, as planned, we successfully slowed the rate of customer contraction year on year.

In Mexico, reflecting the challenging first-half performance, we strengthened our leadership team including the appointment of a new country manager and refined our strategy to improve performance, implementing a range of operational actions which prioritised credit quality over growth. There have been some encouraging signs in key performance indicators for the newer cohorts of loans issued and we will continue to focus on delivering consistency of execution that will act as a platform to improve portfolio quality before recommencing growth in 2020.

Our strategy to grow our IPF Digital offering reflects increasing demand from consumers who are looking for end-to-end digital services. Since the acquisition of our digital business, we have focused on building scale and increased customer numbers more than three-fold to 305,000. Importantly, the business also delivered on its promise to of a maiden profit before tax in 2019, clearly demonstrating our ability to build a fintech business that can serve customers profitably. Earlier in the year we began testing our innovative digital mobile wallet product in Finland. This is a virtual wallet on a mobile device which gives customers a transparent, easy and flexible way to pay for everyday purchases either on-line or in store.

Using our test and learn approach, we expect to roll out our mobile wallet into more countries during 2020, enhancing the customer experience and driving growth.

## Regulatory update

In December 2016 the Polish Ministry of Justice published a draft bill which, amongst other things, proposed a significant reduction in the cap on non-interest costs chargeable in consumer lending. The proposals were revised by the Ministry in early 2019, subsequently adopted as Government proposals in mid-2019, and then further revised by the Government. Having failed to proceed through the legislative process prior to the Polish general election in November 2019, the proposals are no longer on the current legislative agenda. The reintroduction of the proposals onto the legislative agenda, in the most recent or a further revised form, is a possibility and we continue to monitor the situation closely.

UOKiK, the Polish competition and consumer protection authority, is conducting a comprehensive review of rebating practices by banks and other consumer credit providers on early loan settlement, including those of the Group's Polish businesses. In light of this and a recent European Court of Justice declaratory judgment on the matter, we expect new market standard rebating practices to evolve in Poland. When we have clarity on the new emerging standards, our Polish businesses will conform their rebating practices accordingly. There is a wide range of possible outcomes from this review. Our current expectation is that the annual financial impact is likely to be in the range of £5 million to £15 million and we are working on a number of mitigating strategies.

In Romania legislation that was enacted in 2019 applying a price cap on the cost of consumer lending was successfully challenged by political opponents of the Government as being unconstitutional, with the result that the new cap did not take effect. Revised proposals have been tabled in the Romanian Parliament, which include a cap on the total amount payable, being twice the amount borrowed for loans below 3,000 EUR, while defining an APR cap of 15% plus base rate for the rest of consumer

credit. This proposal is going through Parliamentary discussions and may progress to enactment in 2020 or later. The vast majority of the Group's Romanian business's current portfolio would be subject to the 100% total cost of credit limit and not the 15% APR cap, if enacted in the proposed form.

## Outlook

We are confident that our strategy will continue to support growth across the Group by successfully addressing the demands of our core stakeholders: meeting our customers' needs, creating value for our shareholders and contributing to the communities in which we operate. Our passion to serve our customers with products that meet their needs and provide a positive customer experience will deliver further sustainable growth and attractive future returns.

We will continue to invest in modernising our European home credit businesses, enhancing our offering to attract and retain customers and improving efficiency. In Mexico home credit we are focused on driving greater execution consistency and improving operational performance before recommencing growth and delivering progressive improvements in profit in 2020. In IPF Digital we will continue our journey of building a profitable fintech business by focusing on continued portfolio growth balanced with improved credit quality, while creating innovative products and services to deliver an enhanced customer experience and so support our growth plans.

**"We will continue to evolve the products and channels we offer to meet the requirements of our customers, enabling us to deliver enhanced shareholder value and contribute to the communities in which we operate."**

# European home credit

**Very strong  
operational  
and financial  
performance**

We continued to deliver well against our strategy of providing a great customer experience and generating strong returns to invest in building a more customer-focused business that offers products that are relevant and affordable. As part of this strategy, the business now has fewer customers than in the past, but our products are more competitive, our customer journey more user friendly and our business more technologically enabled and efficient.

Excellent operational execution by our European teams delivered a very strong financial performance in 2019 and resulted in a £1.3 million increase in profit before tax to £115.1 million. This reflects an improvement in like-for-like profit of £4.5 million driven by excellent collections, offset partially by a £3.2 million adverse effect from weaker FX rates.

One of our key performance objectives for 2019 was to reduce the rate of customer contraction in our European home credit businesses, and it is pleasing to report that campaigns implemented to improve customer acquisition and retention were successful, with the rate of decline in customer numbers improving by 4 percentage points year on year to 8%. We also delivered 1% growth in credit issued reflecting our focus on extending loan values and term while managing credit quality, and this contributed to an increase in average net receivables of 3%. Revenue, however, reduced by 6% as a result of price promotions to support both customer acquisition and retention together with the impact of longer product terms with lower revenue yields. We believe this price-to-volume

trade-off is sensible for our customers and our business.

Credit quality of the loan portfolio is excellent as a result of good agent collections alongside stable post-field collections, and year on year this delivered a 5.5ppt improvement in impairment as a percentage of revenue to 12.4%.

To further modernise the business model and improve the customer experience we enhanced our agent mobile technology with the completion of the roll out of a collections app to all agents in Europe. This is being followed by new sales functionality which will deliver further administrative efficiencies and cost savings. We also invested in new products and channel offerings to meet the changing demands of our customers, and our Provident-branded digital product in Poland continues to grow and we now serve 32,000 customers alongside our home credit offering. Costs continue to be very well controlled and we delivered a £5.7 million (at CER) reduction in costs during 2019. The cost-income ratio increased by 1.8ppts to 42.7% as a result of the lower revenue yields.

During 2020 we will be focused on significantly enhancing our customer journey. We will also enrich our agent mobile technology by completing the roll out of the new sales application during 2020 and plan to further grow the Provident-branded digital loan offering in Poland. We unified the leadership of our European home credit businesses in 2019 and this is already helping to improve collaboration, and drive efficiencies and the sharing of best practice.

	2018 £m	2019 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	1,092	<b>1,009</b>	(83)	(7.6)	
Credit issued	757.8	<b>751.3</b>	(6.5)	(0.9)	1.4
Average net receivables	558.9	<b>562.0</b>	3.1	0.6	2.7
Revenue	493.3	<b>452.2</b>	(41.1)	(8.3)	(6.3)
Impairment	(88.5)	<b>(56.0)</b>	32.5	36.7	35.0
Net revenue	404.8	<b>396.2</b>	(8.6)	(2.1)	(0.1)
Finance costs	(35.3)	<b>(37.1)</b>	(1.8)	(5.1)	(6.9)
Agents' commission	(53.7)	<b>(51.1)</b>	2.6	4.8	2.7
Other costs	(202.0)	<b>(192.9)</b>	9.1	4.5	2.9
<b>Profit before taxation</b>	113.8	<b>115.1</b>	1.3	1.1	



# Mexico home credit

## Challenging performance; recovery underway

We are seeing signs of recovery in our Mexico home credit business following a challenging first half during which time a softer macroeconomic backdrop and deterioration in credit quality and collections adversely impacted performance. We took decisive action on the operational challenges we faced with the key focus being to prioritise credit quality over growth and create an operational environment that ensures we take full advantage of the significant, long-term potential of this market.

To accelerate the changes needed, we appointed a highly-experienced country manager, and operationally, we introduced significantly more cautious credit settings to improve the quality of the receivables portfolio and reduce impairment

to a more acceptable level. We also implemented a series of actions to improve agent collections performance, including revised territory management, rebalanced incentivisation and tighter operational controls.

During the second half of the year, we continued to execute our operational improvement plans and further strengthened the Mexico management team with the appointment of a number of senior leaders. We have also developed a refined growth strategy that segments the business between units generating acceptable returns and those where we are continuing to invest or focus on a step change in operating performance. There is still more to do before we decide to rebuild growth momentum, but we have stabilised impairment as a percentage of revenue at 41.3%, which is broadly in line with the half year. There have been some encouraging signs in other key performance indicators with recently issued loans performing significantly better and improving collections performance. We also expect to see the result of our actions feeding through into improved levels of impairment during 2020.

These operational changes to improve quality and consistency of performance across the business impacted performance and we delivered profit before tax of £10.5 million which comprises a £6.2 million reduction in like-for-like profit and a £1.0 million benefit from FX movements.

The focus on quality across the business resulted in a 13% reduction in customer numbers year on year to 795,000 and credit issued contracted by 12%. Notwithstanding this, average net receivables increased slightly due to credit issued growth in 2018 and this drove 5% growth in revenue year on year.

We managed costs tightly in 2019 in response to the challenging collections performance and restricted the increase in the overall market cost base to 2.2%, despite incremental investment in geographic expansion and other business development activities. The cost-income ratio improved by 1.1ppt to 37.6% due to the benefit of operational leverage.

Looking ahead, our priority is to deliver a more consistent performance and embed operational rigour and collections strategies to improve credit quality. We expect to see a continuation of positive early credit quality indicator trends and to deliver sufficient improvement in portfolio quality in the first half of 2020 that will give us confidence to rebalance our focus onto growth.

	2018 £m	2019 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	917	<b>795</b>	(122)	(13.3)	
Credit issued	291.0	<b>268.2</b>	(22.8)	(7.8)	(11.7)
Average net receivables	154.9	<b>164.4</b>	9.5	6.1	1.6
Revenue	226.1	<b>247.6</b>	21.5	9.5	4.9
Impairment	(82.9)	<b>(102.3)</b>	(19.4)	(23.4)	(18.4)
Net revenue	143.2	<b>145.3</b>	2.1	1.5	(2.9)
Finance costs	(11.3)	<b>(11.8)</b>	(0.5)	(4.4)	-
Agents' commission	(28.8)	<b>(29.9)</b>	(1.1)	(3.8)	0.7
Other costs	(87.4)	<b>(93.1)</b>	(5.7)	(6.5)	(2.2)
<b>Profit before taxation</b>	15.7	<b>10.5</b>	(5.2)	(33.1)	

# IPF Digital

**Successfully delivered maiden profit; significant medium-term growth opportunity**

We are very pleased to report that IPF Digital delivered its maiden profit of £3.2 million in 2019, which represents a year-on-year increase in profit of £8.8 million.

Against strong year-on-year comparators, our digital offering and targeted marketing delivered an 8% increase in credit issued driven primarily by our new markets. We also grew customer numbers by 4% to 305,000, with more than half of these now being served in our new markets. This top-line growth resulted in a 26%

increase in average net receivables and growth in revenue of 30%.

Annualised impairment as a percentage of revenue increased by 7.2ppts year on year to 45.0%. This was driven by a shift in the mix of the portfolio away from the established markets, which operate with lower and more stable loss rates, together with higher than planned impairment in the new markets. Our strategy to increase scale and invest in technology alongside robust cost control enabled us to better leverage our infrastructure and improve our cost efficiency, delivering a very strong 12.2ppt year-on-year reduction in the cost-income ratio to 45.7%.

## Established markets

Our established markets delivered a strong operational performance in 2019 and increased profit before tax by £7.2 million to £32.7 million driven by the benefits of increased scale, very good credit quality and improving cost efficiency. This was ahead of our original expectations.

As expected, credit issued growth moderated to 3% in these more mature markets, where volumes were adversely impacted by regulatory changes in Finland in the second half of the year. Average net receivables

increased by 6% which, in turn, drove a similar increase in revenue.

Credit quality in the established markets continues to be very good. Impairment as a percentage of revenue improved by 1.1ppts year on year to 19.7% reflecting the strength of our credit strategies and scorecards in these well-regulated markets. Strong cost management and the benefits of increasing scale and efficiency delivered a 5.8ppt improvement in the cost-income ratio to 32.3%.

During the year, revised regulations were introduced in Finland and Latvia and we adapted our product offering to comply with the new pricing and debt-to-income requirements. Whilst the new rate cap in Latvia is set at a similar level to Estonia and Lithuania where we generate good returns, the new cap in Finland is very low for the risk profile of our lending. We are executing a plan to respond to this challenge and will continue to monitor the development of the business model in Finland and the returns that it generates and apply discipline to the capital that we deploy to it. As previously reported, we expect that the contribution of our established markets to divisional profitability will reduce in 2020.

	2018 £m	2019 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	292	305	13	4.5	
Credit issued	311.8	333.5	21.7	7.0	8.1
Average net receivables	209.6	260.2	50.6	24.1	25.6
Revenue	147.0	189.3	42.3	28.8	30.2
Impairment	(55.6)	(85.2)	(29.6)	(53.2)	(54.9)
Net revenue	91.4	104.1	12.7	13.9	15.2
Finance costs	(11.9)	(14.4)	(2.5)	(21.0)	(22.0)
Other costs	(85.1)	(86.5)	(1.4)	(1.6)	(2.7)
<b>(Loss) / profit before taxation</b>	<b>(5.6)</b>	<b>3.2</b>	<b>8.8</b>	<b>157.1</b>	

The profitability of IPF Digital is segmented as follows:

	2018 £m	2019 £m	Change £m	Change %
Established markets	25.5	32.7	7.2	28.2
New markets	(17.8)	(15.5)	2.3	12.9
Head office costs	(13.3)	(14.0)	(0.7)	(5.3)
<b>IPF Digital</b>	<b>(5.6)</b>	<b>3.2</b>	<b>8.8</b>	<b>157.1</b>

## New markets

Start-up losses in the new markets reduced by £2.3 million to £15.5 million, driven by portfolio and revenue growth and improved cost leverage, partially offset by an increase in impairment.

As reported with our half-year results, impairment as a percentage of revenue was higher than planned specifically as a result of higher-than-expected credit losses in Poland and Spain. In response, we focused our efforts on improving credit quality in these markets by tightening our lending policies. This resulted in a 13% increase in credit issued year on year although credit issued contracted in the second half against strong comparators. Average net receivables increased by 58% which delivered a similar rate of growth in revenue. We now serve 155,000 customers in our new markets, a 15% increase year on year.

Impairment as a percentage of revenue was 64.8% at the year-end, which represents a 6.9ppt increase year on year. We expect the impact of tighter credit settings will drive an improvement in impairment during 2020 after which we will progressively ease credit settings in order to take further advantage of the significant digital growth opportunities our new markets present.

The economies of rapidly increasing scale in the new markets resulted in a significant 18.5ppt improvement in the cost-income ratio to 43.0% year on year and we expect this trend to continue as the businesses grow.

## Outlook

IPF Digital represents a significant long-term growth opportunity for the Group and reaching profitability demonstrates our ability to build a successful digital lending business

in the fintech sector. Our short-term focus will be on improving the credit performance in our new markets before accelerating growth and managing the impact of the new legislation in Finland and Latvia. We expect profit growth in 2020 to be relatively modest with a lower contribution from the established markets and an improved result in the new markets. Providing a great customer experience through innovative products, including our mobile wallet offering, will ensure that we can build on the very solid foundations of this exciting business.

## Established markets

	2018 £m	2019 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	157	150	(7)	(4.5)	
Credit issued	161.3	165.5	4.2	2.6	3.4
Average net receivables	130.9	137.7	6.8	5.2	6.2
Revenue	79.5	83.1	3.6	4.5	5.5
Impairment	(16.5)	(16.4)	0.1	0.6	1.2
Net revenue	63.0	66.7	3.7	5.9	7.2
Finance costs	(7.2)	(7.2)	-	-	-
Other costs	(30.3)	(26.8)	3.5	11.6	10.7
<b>Profit before taxation</b>	25.5	32.7	7.2	28.2	

## New markets

	2018 £m	2019 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	135	155	20	14.8	
Credit issued	150.5	168.0	17.5	11.6	13.2
Average net receivables	78.7	122.5	43.8	55.7	58.3
Revenue	67.5	106.2	38.7	57.3	59.5
Impairment	(39.1)	(68.8)	(29.7)	(76.0)	(79.2)
Net revenue	28.4	37.4	9.0	31.7	32.6
Finance costs	(4.7)	(7.2)	(2.5)	(53.2)	(56.5)
Other costs	(41.5)	(45.7)	(4.2)	(10.1)	(11.2)
<b>Loss before taxation</b>	(17.8)	(15.5)	2.3	12.9	

# Engaging with our stakeholders

It is vital that we engage with our key stakeholders to maintain relationships that help us generate and maintain long-term value.

## Our stakeholders

## Why we engage

## Key areas of interest

### Customers



Engaging with our customers allows us to build a greater understanding of their changing needs and behaviours so we can provide relevant credit products and high levels of service. This helps us retain quality customers and attract new ones.

- Affordability and price
- Flexible repayments
- Convenience
- Excellent customer experience
- Trusted and responsible lender

### Employees and agents



The evolution of our culture, which is grounded in our values, is vital for our sustainability. In addition to supporting knowledge and career development, we engage with our people in order to serve our customers well and deliver our strategy.

- Employee and agent engagement
- Development opportunities
- Recognition and fair reward
- Open, straightforward communications
- Ethical, customer-focused culture
- Responsible lending and a good reputation
- Safe and productive working environment

### Regulators and legislators



We engage with regulators and legislators to build an understanding of the important role we play in society by providing fair and transparent finance to those who might otherwise be financially excluded. Regulation with unintended consequences can impact our ability to serve our customer segment.

- Regulatory compliance
- Control and supervision
- Fair pricing and promotions
- Responsible lending and affordability
- Business ethics training
- Tax contributions
- Fair employment contracts

### Communities



Building better relationships with our communities is important for us to attract customers, employees and agents. Helping consumers build their confidence in making financial decisions supports responsible borrowing and lending. Engaging through our community programmes is also key to maintain our social licence to operate.

- Financial literacy
- Social wellbeing
- Employee and agent engagement
- Building trust for our business
- Community support programmes
- A good reputation

### Shareholders and investors



Our investors expect to earn a return on their investment. As a publicly-listed company, we are required to provide fair, balanced and understandable information to enable investors to understand our business so that they may make an informed investment decision.

- Strategy, performance and outlook
- Risk management and corporate governance
- Leadership capability
- Executive remuneration
- Dividend policy
- Access to management

## Section 172(1)

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with s172(1) of the Companies Act. The content on stakeholder engagement below and on pages 32 to 37 highlight the key activity undertaken in this area. Further details on how the Directors' duties are discharged and the oversight of these duties are included in the Governance section on pages 65 and 66.

## How we engage and respond

- Customer visits
- Personal agent relationship or digital customer interfaces
- Customer satisfaction surveys
- Online and social media
- Collaboration on product innovation

- Investing in the development of colleague capabilities
- Engagement and reputational tracking surveys
- Annual conferences and business updates
- Regular two-way communication
- Recognition and reward programmes
- Training programmes including ethics and safety
- Intranets, e-communications and agent app
- Interactions with workforce and stakeholder engagement director

- Sector association membership
- Public consultations
- Engagement on draft regulations
- External advisor network
- Partnerships with non-governmental organisations

- Financial literacy programmes
- Partnerships with non-governmental organisations
- Financial wellbeing research
- Volunteering
- Supporting causes that are close to colleagues

- Ongoing dialogue and meetings
- Provide access to management
- Annual General Meeting
- Results presentations, trading updates and webcasts
- Annual Report and Financial Statements
- Roadshows and conferences
- Corporate website
- Remuneration Policy engagement

## Impact of engagement

# 63.2%

### Group customer retention

We lend responsibly so customers can afford to buy the things they need.

# 82%

### engagement survey score

We provide engaging employment and fulfilling careers.

# 9

### stakeholder roundtables

We work to provide sustainable financial services markets that are positive for consumers and businesses.

# 18,205

### hours of volunteering during business hours

We contribute to organisations that offer educational and social support to people in the communities where we operate.

# £27.7m

### dividends paid in 2019

We pay a dividend which demonstrates IPF is a successful business generating long-term sustainable returns.



# Responding to our stakeholders' needs to deliver sustainable value



**“Understanding our customers means we deliver products and services that work for them. This is reflected in our culture which we reinforce through our ethics programme, training and leadership.”**

**Gerard Ryan**  
Chief Executive Officer

We are committed to living our purpose by meeting our responsibilities towards our stakeholders, both of which are key to the long-term success of our business. By engaging with our stakeholders we are able to gain insights into their needs which influence our operating environment and, ultimately, our strategic thinking. We believe that the best and most sustainable way to create and grow long-term value for our investors is to create value for our customers, employees and agents, regulators and communities.

## Sustainability Priorities

We aim to integrate our sustainability vision into the long-term strategic business plan. During 2019 we identified the following priorities in relation to each stakeholder group:



**Stakeholder group**

Customers

Employees and agents

Regulators and legislators

Communities

Shareholders and investors

**Our sustainability priorities**

Treat our customers fairly in all our interactions  
  
Support access to credit for underserved and underbanked consumers

Research, develop and deploy an employee value proposition dedicated to retain, develop and support our people at all levels

Inform opinion leaders on the importance of our business model and social purpose

Utilise our community programmes to gain understanding and empathy with our communities

Ensure the long-term viability of the business model through sustainable decision-making



## Customers

Our business model and credit products are financially inclusive, designed specifically to suit the needs of our customers who may have difficulty in accessing credit from banks and other mainstream operators. The loans we provide can make a genuine difference to their lives when their needs are pressing. Responsible lending is at the core of our business model so we start by lending small amounts to new customers, and those who repay well can build a positive credit record that will help them gain greater access to financial services in the future.

Our approach to doing business focuses on providing a positive customer experience both at the point we serve credit and the service thereafter in order to attract and retain customers. To achieve this we ensure that customers are treated fairly in all their interactions with us. During 2019, we focused on improving the customer experience by researching and developing customer profiles, and mapping their journeys with us to help deliver the best possible service via our agents and digital offerings. In the year ahead, we will build on this work to help us attract and retain customers.

We launched a number of new products in European home credit and in response to the changing expectations of consumers looking to manage their finances online, we also began testing a digital mobile wallet product in Finland, which gives customers a transparent, easy and flexible way to pay for everyday purchases.

**Our home credit loans are often the helping hand needed to enable our customers to buy the things they need and to create a better future.**



**"With the support of Provident, I used my loan to hire more staff at my taco business in Naucalpan de Juárez. It has meant that we can provide a much better service to my customers."**

Pascual in Mexico



**"A flower shop was a childhood dream. After my children had grown up, and with the support of my husband, I decided to follow that dream. We didn't have enough savings to start the business so applied for a loan with Provident. We finalised our business plan and used the loan to help us open the shop, less than a year after making our decision to do so. It's still early days but we already have loyal customers, and the number is growing each month. My dream has come true."**

Krystyna in Poland



## Employees and agents

Our employees and agents are vital to delivering a responsible, respectful and straightforward service to our customers and, as such, we dedicate time and resources to developing our international workforce. We focus on building an informed and engaged workforce: people who understand our purpose and how their work contributes to the delivery of our business goals, who are proud to work for the business, and who are motivated to give their best efforts to serve our customers.

In 2019, we continued to focus on engaging and listening to our people; through face-to-face employee and agent conferences and our Global People Survey, which received an excellent participation rate and achieved an overall IPF engagement score of 82%. The survey provided feedback on matters as diverse as work-life balance, leadership and sense of belonging. This allowed us to empower people managers to develop action plans targeted to the specific feedback of their teams and thereby continue to strengthen the engagement of our people.

As part of the work we undertake continually to develop our culture, we researched, developed and plan to deploy a global employee value proposition. This will describe what we stand for and offer as an employer, and communicate the attributes and qualities that our employees and agents believe make us distinctive. It will also help us deliver an employee experience that appeals to those who will thrive and perform best in our culture and in all our locations – and ultimately will provide excellent service to our customers.

We also enhanced our “Speak Up” service, which allows our people to report, in confidence, any perceived breaches of our Code of Ethics.



**“One of the biggest values of the training is sharing knowledge between home credit and digital lending, and trying to collaborate and find common solutions suitable for both businesses.”**

Ruta Myle, IPF Digital marketing manager, Lithuania

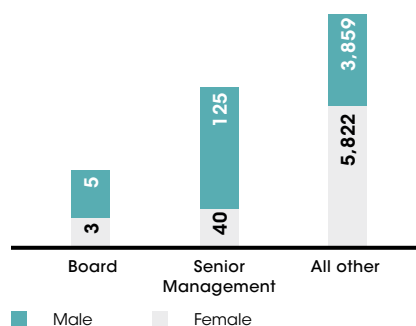
### International Sales Leadership Academy

Developing our people is another key focus and we offer a number of leadership development programmes to strengthen the depth of talent across the Group. In 2019, we launched our International Sales Leadership Academy to develop the skills, capabilities and behaviours that are essential for our customer-facing teams so they may continue to raise the bar with respect to customer experience and to maintaining sustainable growth in our business. The programme brings the latest leadership, customer experience and strategic thinking to our sales leaders, while offering a dynamic learning space where they can formulate innovative ideas on how we can continue to best serve our customers.

## Diversity

We are committed to having a diverse workforce and take steps to ensure that our business processes ensure that recruitment, selection and reward is based purely on merit. Collaboration between our international businesses is a central dynamic in our culture and drives a strongly inclusive mindset which positively impacts and informs our approach to customers and other stakeholders.

### Gender split at 31 Dec 2019







## Communities

We visit the majority of our home credit customers every week and are closely connected to the communities we serve. We focus on leveraging these personal relationships with our community programme. As many of our customers have limited access to credit we aim to enable social and financial inclusion through a mix of financial education, employee volunteering and grant-giving.

### Financial education

Our research into financial wellbeing suggests many people in our markets do not receive a formal financial education and would value the opportunity to learn more about financial management. By promoting financial skills development online and through face-to-face initiatives we enable customers and the general public to engage with the financial sector with more confidence, and to make responsible and informed decisions about their long-term financial planning.

Our financial literacy programme in Poland, which is called 'What about the money?!', helps young people manage their personal finances and is a good example of our focus on financial education. The engaging vlog format allows viewers to learn about personal finance based on the experiences of three vloggers. Young people can also share their insights and experiences of budget management.

### 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 both in our direct operations and in the indirect operations of our supply chain.



Our statement on the Modern Slavery Act 2015 can be found at [www.ipfin.co.uk](http://www.ipfin.co.uk)



**"You could see immediately, that our help is in the right place. There is no better motivation and satisfaction than to see utter joy from your help and it could be seen and felt at every step at Ruzinovska school."**

Svatava, Czech Republic

### Employee volunteering

Our annual 'Make a Difference in May' volunteering event engages employees, agents and our local communities in mutually beneficial community-focused projects. 2019 was our most successful event to date, with thousands of colleagues across all our 11 markets and Group head office in the UK making a difference in their local communities. Colleagues took part in hundreds of activities including conservation, helping disadvantaged young people, and even supporting colleagues and customers who have fallen on hard times.



**12**  
countries



**3,600**  
volunteers

**97%**

enjoyed volunteering

**98%**

said we made a difference in the community

**95%**

feel more positive about working for the business



## Regulators and legislators

We focus on establishing transparent and engaging relationships with regulators and legislators as they play the key role in shaping the consumer finance sector. Our priority is to ensure that they understand our business model and the important contribution we make to the societies in which we operate by providing fair and transparent credit products to those who might otherwise be financially excluded. We also aim to ensure that any regulatory changes deliver a sustainable outcome that is positive for customers and businesses alike.

Our team of professionals engages with regulators through one-to-one meetings, stakeholder roundtables and industry associations. We are active members of industry associations in all our home credit and many of our digital locations, and contribute to the sector position on issues such as responsible lending and financial inclusion. Our twice-yearly Financial Wellbeing research delivers thought-leadership which reflects the views of consumers on a range of important financial and economic issues. We use this research to advocate for the needs of consumers to key groups of decision-makers and influencers.



Launch of Provident Romania's economic footprint study

### Our role in financial education

In Romania, we continued a series of stakeholder events to help inform decision-makers about our role in the Romanian economy, society and our contribution to financial education and responsible lending. We also spoke at conferences and forums organised by academics and think tanks to further support our reputation. In September we relaunched our economic footprint study at an event attended by 20 stakeholders including representatives of the Competition Council, National

Bank of Romania, the Prime Minister's office and MPs. We also organised regional events attended by local authorities and MPs.

In Mexico, our annual stakeholder roundtable focused on the financial needs and circumstances of young Mexican people, many of who face challenges in accessing a financially-inclusive future. The results of our Financial Wellbeing research formed the core of the debate and a springboard for discussions between stakeholders who included regulators, politicians, diplomats, business leaders and employees.



## Shareholders and Investors

We finance our operations through a combination of retained profits, shareholder equity, and a diversified debt portfolio comprising wholesale and retail bonds together with bank finance. To support our financial strategy and ensure our shareholders, providers of debt funding and credit rating agencies are informed about the business, we undertake a proactive investor relations engagement programme. Regular dialogue undertaken by key members of the IPF team, focuses on communicating our financial performance, governance, risk management, ESG matters and the sustainability of the business. We also provide opportunities for investors to discuss particular areas of interest or concerns, and their feedback informs management and reporting practices.

<b>Chairman's and Senior Independent Director's investor lunch</b>	<b>Annual Report</b>	<b>AGM</b>
<b>Roadshow programme</b>	<b>Investor engagement</b>	<b>Results announcements, presentations and webcasts</b>
<b>Investor feedback</b>	<b>Investor conferences</b>	<b>Corporate website</b>



Read more about the progress made against our sustainability strategy at [www.ipfin.co.uk](http://www.ipfin.co.uk)





**"Our UK ethics panel discussed our personal reflections on business ethics, the challenges we face and our future considerations. We invited colleagues to give their views and it was great to see the level of interaction and interest in business ethics."**

**Lyndsey Scott,**  
Chief human resources officer

## Code of ethics

Our code of ethics guides our employees, agents and other partners of the business on how to maintain relationships with our stakeholders in line with our core values of being responsible, respectful and straightforward. The code is communicated to all employees and agents, and is common across the business regardless of location, function or employee level. All employees and agents must complete business ethics training during their induction and at least once a year thereafter. We focus on bringing the code of ethics to life through our International Ethics Week and in 2019 we held business ethics panel discussions in several markets.

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## Awards

We continue to win awards and accolades for our customer service, reputation and being a great place to work.

### Responsible



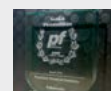
**Socially Responsible Company**

Mexico



**Financial Brand of the year 2019**

Poland



**Best Non-banking Financial Institution**

Romania

### Sustainable



**Top Employer**

Poland, Czech Republic, Hungary and Romania



**MSCI ESG rating\* 'AA'**

IPF plc



**Great Place to Work**

IPF Digital Mexico

### Innovative



**Superbrand Status**

Hungary



**Top Ten Fintech**

IPF Digital Spain



**Fenix Bronze award for Social Media and Content**

Czech Republic

## Non-financial information statement

The table below sets out where stakeholders can find information in our Annual Report that relates to non-financial matters detailed under section 414CB of the Companies Act 2006.

Reporting requirement	Relevant policies	Relevant section of our report	Measurements of effectiveness
Business Model		<ul style="list-style-type: none"> <li>Our business model – p12-13</li> <li>Delivering our social purpose responsibly – p6</li> <li>Key performance indicators – p22-23</li> <li>Principal risks and uncertainties – p46-52</li> </ul>	<ul style="list-style-type: none"> <li>Customer numbers</li> <li>Customer retention</li> <li>Customer satisfaction</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Code of ethics</li> <li>Group health and safety policy</li> <li>Wellbeing policy</li> <li>Diversity policy</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder review: Employees and agents – p34</li> <li>Stakeholder review: Diversity – p34</li> <li>Board diversity – p75</li> <li>Equal opportunities – p71</li> <li>Principal risks: People and Safety risks – p49 and p51</li> </ul>	<ul style="list-style-type: none"> <li>Employee and agent retention</li> <li>Risk assessment completion by agents in home credit markets</li> <li>Percentage of relevant employees and agents completing safety training</li> </ul>
Human Rights	<ul style="list-style-type: none"> <li>Code of ethics</li> <li>Human rights and modern slavery policy</li> </ul>	<ul style="list-style-type: none"> <li>Chairman's Statement and CEO Review: Our values – p5 and p20</li> <li>Stakeholder review: Code of ethics – p37</li> <li>Stakeholder Review: Human rights – p35</li> </ul>	<ul style="list-style-type: none"> <li>Access to confidential whistleblowing service</li> <li>Percentage of relevant employees and agents completing ethics and modern slavery awareness training</li> </ul>
Social Matters	<ul style="list-style-type: none"> <li>Code of ethics</li> </ul>	<ul style="list-style-type: none"> <li>Delivering our social purpose responsibly – p6</li> <li>Principal risks: Reputation risk – p50</li> <li>Stakeholder review: Communities – p35</li> </ul>	<ul style="list-style-type: none"> <li>Investment in local communities</li> <li>Hours of employee volunteering</li> </ul>
Anti-bribery and corruption	<ul style="list-style-type: none"> <li>Anti-bribery and corruption policy</li> <li>Gifts and hospitality policy</li> <li>Anti-facilitation of tax evasion policy</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder review: Code of ethics – p37</li> <li>Anti-bribery policy – p71</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of relevant employees and agents completing: <ul style="list-style-type: none"> <li>anti-bribery training;</li> <li>ethics training; and</li> <li>anti-facilitation of tax evasion training</li> </ul> </li> <li>Coverage of current anti-bribery risk assessments</li> <li>Completion of current anti-facilitation of tax evasion risk assessment</li> </ul>
Environmental Matters		<ul style="list-style-type: none"> <li>Greenhouse gas reporting – p73</li> </ul>	<ul style="list-style-type: none"> <li>Tonnes of CO<sub>2</sub>e emissions per customer per annum</li> </ul>
Principal Risks		<ul style="list-style-type: none"> <li>Principal risks and uncertainties – p46-52</li> </ul>	
Non-financial KPIs		<ul style="list-style-type: none"> <li>Customers and customer retention – p22</li> <li>Employee and agent retention – p22</li> </ul>	

# Good returns and a strong financial profile



**“Our financial position improved materially in 2019 with the positive outcome on Polish tax for years 2010 to 2017.”**

**Justin Lockwood**  
Chief Financial Officer

## Our financial strategy

We aim to deliver long-term profitable growth and deploy capital efficiently, in order to develop and run businesses which provide good returns to shareholders, while maintaining a strong financial profile and delivering relevant products and services to our customers. We have a good track record of doing this, even during periods of macroeconomic and financial market volatility, as well as periods of competitive and regulatory change for our business. Our financial position improved materially in 2019 with the positive outcome on Polish tax for the years 2010 to 2017, more detail on which is covered on page 42.

## Our financial model

We adopt a Group financial model which sets out key strategically aligned financial parameters. The model focuses on returns and capital; financial profile; and balancing investment, growth and risk. Over the medium term, we aim to achieve a good return on the capital invested in receivables for each of our businesses, recognising their different stages of development and investment profile, and pay an appropriate level of dividends to shareholders. We continue to maintain a strong balance sheet with appropriate capital supporting receivables, and have a strong debt funding position with good headroom on debt facilities and debt covenants.

We ensure that we have adequate equity capital and debt funding to support future growth and to withstand external shocks if they arise, enabling us to achieve good returns within the financial parameters. The settlement of the Polish tax dispute for 2010 to 2017 removes a significant liquidity risk for IPF. This will allow more flexibility in the refinancing of our main Eurobond, which we aim to complete by the end of 2020.

Our businesses are at different stages of development. The European home credit business is cash and capital generative and provides attractive returns. Our IPF Digital and Mexico home credit businesses are growth-focused and we will continue to invest in them to further build returns over the medium term. The strong capital generation of the European home credit business provides significant capital to invest in building a long-term, sustainable future for these operations as well as our IPF Digital and Mexico home credit businesses, in addition to any capital generated by the growth businesses themselves.

We have a strong balance sheet, funding position and robust financial risk management. We operate with a target equity to receivables capital ratio of around 40%. To maintain the credit quality of lending, we target an impairment to revenue range of 25-30% and at Group level we have

always operated within or just below this range. Our debt funding strategy provides a resilient funding position for the existing business and for future growth, through a diversified debt portfolio of bond and bank facilities. By maintaining our strong financial profile, we are able to operate with good headroom on the financial covenants in our debt facilities.

**For a reconciliation and glossary of the alternative performance measures that we use see pages 156-160**

**For our operational review of 2019 performance see pages 24-29**

### Credit rating from Moody's to support funding initiatives

A key element of our funding plan is to broaden our debt investor base and continue to diversify and extend our sources of debt funding to support the long-term growth of the business. We have had a credit rating from Fitch since 2010, which has worked well for us, but in 2019 we decided to obtain a second credit rating from Moody's to give further comfort to investors to support bond issuance. We obtained a new credit rating of Ba3 stable outlook from Moody's and Fitch reaffirmed the BB rating and revised its outlook from negative to stable, meaning that our overall credit rating position improved. This was helpful in the successful refinancing of a substantial proportion of the £101.5 million retail-eligible bond maturing 2020. We completed a series of investor meetings involving an extensive roadshow to explain our corporate strategy, and the strength of our business model and financial profile. As a result, £57.4 million of the existing bonds were exchanged and £20.7 million of new bonds were issued for cash to create a new £78.1 million 7.75% bond maturing 2023.

### Returns

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

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

The table on the right shows the ROA for our European home credit, Mexico home credit and IPF Digital businesses, and for the Group as a whole. ROA is

measured as profit before interest, after tax, divided by the average receivables during the period.

We would expect to earn higher returns on our European home credit business, and lower but growing returns on the Mexico home credit and IPF Digital growth businesses. It is expected that these growth businesses will deliver improved returns over the medium term and, notwithstanding any other changes, the overall Group ROA will reflect this dynamic. Return dynamics, capital generation and earnings per share metrics, were impacted in 2019 by the 6 ppt increase in the effective tax rate for the Group from 31% to 37% as set out in the taxation section on page 42. We expect the effective tax rate to be approximately 40% in 2020.

ROA in our European home credit businesses was reduced to 17.1% in 2019, primarily as a result of the increased tax charge. Returns reduced in Mexico home credit by 3.5ppts to 8.5% reflecting lower profits combined with an increase in average net receivables. IPF Digital delivered an increase in ROA to 4.3% reflecting the improving return dynamics of the business as it delivered its maiden profit. At Group level, ROA decreased by 1.2ppts predominantly driven by the increased tax rate.

### Return on assets

	2018	2019
European home credit	18.4%	17.1%
Mexico home credit	12.0%	8.5%
IPF Digital	2.1%	4.3%
<b>Group</b>	<b>12.5%</b>	<b>11.3%</b>

### Capital generation

	2018 £m	2019 £m
Profit before tax	109.3	114.0
Tax	(33.9)	(42.2)
Profit after tax	75.4	71.8
Receivables growth funded by equity (40%)	(27.5)	(13.3)
Capital generated	47.9	58.5
European home credit	88.3	56.4
Mexico home credit	1.2	16.1
IPF Digital	(31.5)	(4.7)
Other	(10.1)	(9.3)
Dividends declared	(27.7)	(27.7)
Shares acquired by employee trust	-	(2.1)
Capital generated	20.2	28.7

### Return on equity

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

ROE declined by 1.8ppts in 2019 to 16.5%, driven principally by the increase in the effective tax rate.

### Capital generation

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

The table below shows capital generated by our home credit businesses in Europe and Mexico, 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 £71.8 million compared with £75.4 million in 2018 as a result of increased profit, more than offset by the 6ppt rise in effective tax rate. £13.3 million of this capital was used to invest in receivables growth



(based on 40% equity funding for receivables growth) and, therefore, net capital generation was £58.5 million before the declaration of dividends totalling £27.7 million. Our European home credit businesses generated £56.4 million of capital which reflects their good financial performance together with an increase in their investment in receivables. Mexico home credit generated £16.1 million of capital as a result of profits in the year coupled with a reduction in the receivables portfolio. IPF Digital consumed £4.7 million of capital driven by the investment in receivables more than offsetting the improved profitability in the year. The other balance of capital consumption relates to central costs, which reduced as a result of the increased tax rate in the year. Total net capital generation was £28.7 million compared with £20.2 million in 2018.

### Earnings per share

Earnings per share was 32.2 pence in 2019 compared with 33.8 pence in 2018, reflecting the increase in profitability, offset by the higher effective tax rate.

### Dividend

Subject to shareholder approval, a final dividend of 7.8 pence per share will be payable, which will bring the full-year dividend to 12.4 pence per share (2018: 12.4 pence per share). The final dividend will be paid on 11 May 2020 to shareholders on the register at the close of business on 14 April 2020. The shares will be marked ex-dividend on 9 April 2020.

### 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% aims to ensure that we have sufficient capital to provide a level of resilience to external shocks including macroeconomic and regulatory factors as well as 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 2019, the equity to receivables ratio was 44.8% (2018: 43.6%) compared with our target level of 40%, meaning equity capital was

£47 million above the target level. While the capital ratio is higher than the target level, we are comfortable with this, to ensure sufficient capital for growth while maintaining the resilience of the balance sheet given the ongoing regulatory uncertainty in Poland. Gearing was 1.5x at December 2019, broadly in line with 2018, well within the covenant level of 3.75x maximum on our debt facilities. The settlement of the Polish tax dispute removes a significant liquidity and capital risk for IPF by extinguishing a contingent liability that totalled £137 million, and this has the overall impact of materially strengthening our financial profile.

Group impairment as a percentage of revenue at 27.4% in 2019 was within our target range. The average period of receivables outstanding at December 2019 was 12.2 months (2018: 11.5 months) with 74.8% of year-end receivables due within one year (2018: 77.0%). The average period of receivables outstanding has increased as a result of issuing longer-term loans in our European home credit and IPF Digital businesses. Closing receivables in 2019 were £973.6 million, which is £31.8 million (3%) higher than 2018 at CER, reflecting the growth in the business.

## New accounting standards

### IFRS 16 Leases

IFRS 16 Leases is a new accounting standard that became effective from 1 January 2019. It distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a lessee. The distinction of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability has to be recognised for all leases by lessees with some minor exceptions. The right-of-use asset is measured initially at cost and, subsequently, measured at cost less accumulated depreciation and impairment losses. The lease liability is measured initially at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. This change in the accounting policy affected the balance sheet at 1 January 2019 by increasing assets by £21.5 million and increasing liabilities by £21.5 million for

the right-of-use asset and lease liability respectively. The net impact on retained earnings on 1 January 2019 was nil. The impact of the new standard on the profit and loss account in 2019 is not material. More details are set out in note 31 to this Annual Report and Financial Statements.

## Treasury risk management and funding

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

Our funding policy requires us to maintain a resilient funding position for the existing business and for future growth in each market. We aim to maintain a prudent level of headroom on undrawn bank facilities. Our currency policy addresses economic currency exposures and requires us to fund our currency receivables with currency borrowings (directly or indirectly) to achieve a high level of balance sheet hedging. We choose not to hedge the translational risk of foreign currency movements on accounting profits and losses. Our interest rate policy requires us to hedge interest rate risk in each currency to a relatively high level. Our counterparty policy requires exposures to financial counterparties to be limited to BBB-rated entities except as approved, or delegated for approval, 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.

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 €406 million (£344 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.



Debt funding is provided through a diversified debt portfolio at competitive cost with appropriate terms and conditions. We have a range of bonds across a number of currencies, wholesale and retail, with varying maturities, together with facilities from a core group of banks with a good strategic and geographic fit with our business. IPF's debt is senior unsecured debt, with all lenders substantially in the same structural position. We maintain our Euro Medium Term Note programme as the main platform for bond issuance across a range of currencies. In addition, a Polish Medium Term Note programme has been used for bond issuance in the Polish market. Our debt funding strategy has been successful over a number of years, and we have a consistent record of accessing debt markets throughout the economic cycle.

We further strengthened our funding position by adding and refinancing £106 million of debt funding in 2019.

In June, we refinanced a proportion of the £101.5 million retail-eligible bond maturing 2020, with £57.4 million of the existing bonds being exchanged, and £20.7 million of new bonds issued for cash, to create a new £78.1 million 7.75% bond maturing 2023. The remaining £44.1 million bonds not exchanged will stay in place until May 2020. In addition we added £28 million of new bank funding in 2019.

### Borrowing facilities and borrowings

	Maturity	£m
Bonds		
Euro	April 2021	343.5
Sterling	May 2020	44.1
Sterling	December 2023	78.1
Swedish	June 2022	36.4
Polish	June 2020	39.8
<b>Total bonds</b>		<b>541.9</b>
Bank facilities	2020-2024	319.7
<b>Total debt facilities</b>		<b>861.6</b>
<b>Total borrowings</b>		<b>676.4</b>
Headroom		182.4

### Covenant compliance and other key metrics

		2018	2019
Gearing*	Max 3.75	1.3x	1.2x
Interest cover	Min 2 times	3.3x	2.9x

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

At December 2019 we had total debt facilities of £862 million (£542 million bonds and £320 million bank facilities) and borrowings of £679 million, with headroom on undrawn facilities of £182 million. We continued to extend debt facilities during 2019, and now have £322 million of facilities extending beyond the Eurobond maturity in 2021. In the final quarter of 2019, we repaid £14 million of bonds, and bought back £5 million of 2021 Eurobonds at an average price of 97.3. We have two bonds totalling £84 million maturing in May/June 2020, and our £344 million Eurobond matures in April 2021. The settlement of the Polish tax dispute for 2010 to 2017 removes a significant liquidity risk for IPF. This, combined with the high level of headroom on undrawn debt facilities, will allow more flexibility in the refinancing of the Eurobond, which we aim to complete by the end of 2020.

The credit rating position improved in April 2019 following the affirmation of a BB rating by Fitch and the revision of the outlook from negative to stable, together with a new rating from Moody's of Ba3 stable outlook.

Our balance sheet remains robust, with an equity to receivables capital ratio at December 2019 of 44.8% compared with 43.6% at December 2018, and compared with our target level of 40%.

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

### Foreign exchange on reserves

The majority of the Group's net assets are denominated in our operating currencies and, therefore, the sterling value fluctuates with changes in currency exchange rates. In accordance with accounting standards, we have restated the opening foreign currency net assets at the year-end exchange rate and this resulted in a £42.2 million foreign exchange movement, which has been debited to the foreign exchange reserve.

### Taxation

The taxation charge on profit for 2019 has been based on an effective tax rate of 37%. The taxation charge for the year on statutory pre-tax profit was £42.2 million (2018: £33.9 million). The change in effective tax rate was impacted primarily by new tax legislation in Poland which came into force on 1 January 2019 and resulted in certain cross-border transactions entered into by our Polish subsidiary becoming economically inefficient. We expect the effective tax rate to be around 40% in 2020.

As announced on 24 October 2019, the Polish tax audits of 2010 – 2012 were closed and adjustments to the remaining years up to and including 2017 were agreed with the Polish tax authority. This resulted in an overall payment of £3.8 million for 2010 to 2017. The years 2008 and 2009, for which we paid £34.2 million in January 2017 in order to lodge the appeal, remain open. Following expert advice regarding the strength of our case both from a procedural and substantive position, we withdrew our application for mutual agreement procedure between the Polish and UK tax authorities in December 2019 and the cases are expected to be heard in the Polish courts in the first half of 2020. Further details on this matter are set out in note 29.

As previously reported, in late 2017 the European Commission (EC) opened a State Aid investigation into the Group Financing Exemption contained in the UK controlled foreign company rules, which were introduced in 2013. In April 2019 the EC announced its finding that the Group Financing Exemption is partially incompatible with EU State Aid rules. In common with other UK-based international companies whose intra-group finance arrangements are in line with current controlled foreign company rules, the Group is affected by this decision. The total tax benefit obtained by the Group in all years as a result of the structure affected by the decision is estimated at up to £13.9 million. The amount repayable by the Group under the decision however is expected to be lower than this as the final decision only found the UK tax regime to be partially incompatible. HMRC has begun a process of gathering information from taxpayers, including IPF, in order to quantify the amount of alleged State Aid received. The UK government has announced that it has filed an annulment application before the General Court of the EU. In common with a number of other affected taxpayers, IPF has also filed its own annulment application. Further details on this matter are set out in note 29.

### Going concern

The Board has reviewed the budget for the year to 31 December 2020 and the forecasts for the two years to 31 December 2022, which include projected profits, cash flows, borrowings, headroom against debt facilities, and funding requirement.

The plan is stress tested in a variety of downside scenarios that reflect the crystallisation of the Group's principal risks with particular reference to regulatory, taxation, funding, market and counterparty risks as outlined on pages 46 to 52 and the consequent impact on future performance, funding requirements and covenant compliance. Consideration has also been given to multiple risks materialising concurrently and the availability of mitigating actions that could be taken to reduce the impact of the identified risks.

The Group's total debt facilities including a range of bonds and bank facilities, combined with a successful track record of accessing debt funding markets over a long period (including periods of adverse macroeconomic conditions and a changing competitive and regulatory environment), are sufficient to fund business requirements

for the foreseeable future (being 12 months from the date of approval of the Financial Statements). Taking these factors into account, together with the regulatory risk set out on page 47, the Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, the Board has adopted the going concern basis in preparing this Annual Report and Financial Statements.

### Justin Lockwood

Chief Financial Officer

### Summary of key financial statistics

	2018	2019
Revenue (£m)	866.4	<b>889.1</b>
Profit before tax (£m)	109.3	<b>114.0</b>
EBITDA (£m)	191.5	<b>209.9</b>
Cash generated from operating activities (£m)	141.6	<b>188.5</b>
Impairment as a percentage of revenue (%)	26.2%	<b>27.4%</b>
Receivables (£m)	992.8	<b>973.6</b>
Equity (net assets) (£m)	433.0	<b>436.4</b>
Equity to receivables (%)	43.6%	<b>44.8%</b>
ROA (%)	12.5%	<b>11.3%</b>
ROE(%)	18.3%	<b>16.5%</b>
Capital generated (£m)	20.2	<b>28.7</b>
Dividend paid (£m)	27.7	<b>27.7</b>
Dividend per share (pence)	12.4	<b>12.4</b>
Finance costs (£m)	58.5	<b>63.5</b>
Borrowings (£m)	698.3	<b>676.4</b>
Gearing (debt: equity multiple)	1.6x	<b>1.5x</b>
Debt: EBITDA multiple	3.6x	<b>3.2x</b>

# Principal risks and uncertainties

**Effective management of risks, uncertainties and opportunities, which includes automation of our risk management framework, continues to be critical to our business in the face of uncertainty in order to deliver long-term shareholder value, and to protect our people, assets and reputation.**

## Risk management process

The principal risks to our strategy are identified, evaluated and managed at Group level in accordance with our risk governance and oversight structure, as presented on page 45.

We operate similar structures in each of our home credit markets and IPF Digital. A bottom-up assessment of principal risks by our business unit teams is aggregated by their Group-level owners and then validated to produce an overall assessment of those risks. Our Board and senior management group are committed to continuous improvement and investment in the risk management process and have further enhanced it with the introduction of a customised automated risk management tool in 2019.

We continue to manage the same principal risks as last year, but we have reviewed the defined scope of each risk to ensure it accurately reflects our current risk environment.

We set out our principal risks, a summary of key controls and mitigating factors as well as their movement during the year on pages 46 to 52.

## Risk appetite

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

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

Using this assessment, we identify the principal risks and determine whether further actions are required to mitigate the risk to fit within our Board-approved risk appetite levels. We have placed more emphasis on the identification, monitoring and management of emerging risks this year.

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

## Key areas of focus in 2019

We continued to operate within a challenging external environment, with tax and regulatory risks remaining a priority. The Board monitored developments relating to the ongoing tax audits in Poland and, in October 2019, was pleased to report the closure of the 2010 to 2012 financial years together with an agreement with the Polish tax authority regarding treatment for the remaining years up to and including 2017. This has removed a significant contingent liability thereby materially reducing the liquidity and capital risks facing the Group. The court case with respect to the 2008 and 2009 financial years is expected to be heard in the first half of 2020.

Regulatory risk continued to centre on price caps with a number of key developments in 2019.

Draft proposals to significantly tighten the existing rate cap in Poland were revised by the Ministry of Justice and subsequently adopted by the Polish Government. There was a further revision but having failed to proceed through the legislative process prior to the Polish general election, the proposals are no longer on the current legislative agenda. Also in Poland, a review of market standard rebating practices is being undertaken.

Revised regulations were introduced in Finland and Latvia and we adapted our product offering to comply with the new pricing and debt-to-income requirements. In Romania an APR cap enacted during 2019 was declared unconstitutional and, therefore, did not come into effect. Revised proposals in this market have since been tabled in the Romanian parliament. Further information on regulation is included in the Chief Executive Officer's review on pages 19 and 20, and the and operational review on page 25.

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

### The Board

The Board determines the nature and extent of the principal risks it is willing to take in achieving our strategic objectives (as described on pages 16 to 17) and target business model (as described on pages 12 to 13), taking account also of the environment in which the Group operates. The Board approves the principal and emerging risks as described in the Group Schedule of Key Risks on a six-monthly basis and approves the risk appetite annually.

### Audit and Risk Committee

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

See page 76 for Committee membership and remit.

### Risk Advisory Group

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

See page 78 for activities undertaken by the Risk Advisory Group.

### Management Team

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

### Risk ownership

Business unit-level risk ownership: business-level management identifies, assesses and controls risks principally at market level and also within major projects and change initiatives. This level approximates the first line of defence.

Group-level risk ownership: Group-level management risk owners provide oversight on the effectiveness of the risk management and internal control systems. This level approximates to the second line of defence.

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

### Key areas of focus in 2020

We expect regulation, tax and funding to continue to be key focus areas over the year ahead. All of our principal risks will be monitored and managed closely, and are included on pages 46 to 52.

### Brexit

We have continued to monitor Brexit developments and execute the agreed high-level actions to mitigate any potential areas where Brexit could have an impact, using the existing risk management governance structure. We note the signing of the Withdrawal Agreement on 24 January 2020 and transitional arrangements to the end of December 2020.

We are monitoring the negotiations and developments on the future trading relationship between the UK and EU during the transition period. We believe that a no-deal situation at the end of the transition period will not cause operational disruption to our European businesses, as these are all in the EU and will continue to trade under existing local and EU regulations.

Our contingency arrangements are focused on the areas of people, data and treasury and tax issues related to cross-border transactions. We continue to monitor developments in these areas, and we have robust plans in place to address the risks.




**"Our risk management process is designed to support the execution of our strategy, improve decision-making and to ensure the sustainability of the business."**

**Justin Lockwood**  
Chief Financial Officer

**Link to strategy**

- D** Growth focus – IPF Digital
- M** Growth focus – Mexico home credit
- E** Returns focus – European home credit

**Commentary**

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

## Principal risks and uncertainties

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

The risks facing the business by risk category are:

Risk category	Definition	Risks	Description
<b>Market conditions</b>	The risk that we cannot identify, respond to, comply with or take advantage of external market conditions.	<b>Regulatory</b>	
		• Legal and regulatory compliance*	• Compliance with existing consumer credit laws and regulations
		• Legal and regulatory challenges and issues*	• Challenges to interpretation or application of existing laws and regulations
		• Future legal and regulatory development*	• Anticipating and responding to changes to laws and regulations
		• Data protection and privacy*	• Compliance with existing data protection and privacy regulations
		<b>Competition and product proposition</b>	
		• Competition*	• Responding to changes in market conditions
		• Product proposition*	• Meeting customer requirements
		<b>Funding, market and counterparty</b>	
		• Funding, market and counterparty*	• Funding availability to meet business needs • Market volatility impacting performance and asset values • Loss of banking partner
		<b>World economic environment*</b>	• Adapting to economic conditions
		<b>Taxation*</b>	• Changes to, or interpretation of, tax legislation
<b>Stakeholder</b>	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	• Maintaining customer service standards
<b>Operational</b>	The risk of unacceptable losses as a result of inadequacies or failures in our core internal processes, systems or people behaviours.	• Credit*	• Customers fail to repay
		• Safety*	• Harm to our agents/employees
		• People*	• Lack of people capability
		• Business continuity* and information security*	• Recoverability and security of systems and processes
		• Financial and performance reporting	• Failure of financial reporting systems and processes
		• Technology*	• Maintenance of effective technology
		• Fraud	• Theft or fraud loss
		<b>Business development</b>	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.
		• Brand	• Strength of our customer brands

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







Risk	Relevance to strategy	Mitigation	Commentary
<b>1 Regulatory</b>			
<p><b>D M E</b> ↔</p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>We suffer losses or fail to optimise profitable growth due to a failure to operate in compliance with, or effectively anticipate changes in, all applicable laws and regulations (including data protection and privacy laws), or due to a regulator interpreting these in a different way.</p> <p><b>Objective</b></p> <p>We aim to ensure that effective arrangements are in place to enable us to comply with legal and regulatory obligations and take assessed and fully informed commercial risks.</p>	<p><b>Impact</b></p> <p>Changes in regulation, differences in interpretation or clarification of regulation, or changes in the enforcement of laws by regulators, courts or other bodies can lead to challenge of our products and/or practices. We monitor legal and regulatory developments to ensure we maintain compliance, remain competitive and provide value for our customers.</p> <p><b>Likelihood</b></p> <p>The likelihood of legal and regulatory change and the impact of challenge vary by market. In 2019, APR caps were tightened in Finland and Latvia and a new APR cap in Romania was deemed unconstitutional. We expect pricing regulations to be implemented at some point in the future in those markets where there are no price caps currently.</p>	<p>We have highly skilled and experienced legal and public affairs teams at Group level and in each of our markets. Expert third-party advisors are used where necessary. We engage with regulators, legislators, politicians and other stakeholders. Participation of relevant sector associations contributes to our monitoring, as well as influencing capabilities. Co-ordinated legal and public affairs teams, at a Group level and in each market, monitor political, legislative and regulatory developments. Our compliance programme focuses on key consumer legislation including in relation to data privacy. Oversight of regulatory risks by the legal leadership team. Regular reporting to the Audit and Risk Committee on key regulatory and compliance risks.</p>	<p>For more information see the CEO's review on pages 18-19 and the operational review on page 25.</p> <p>In Europe we have seen increased regulatory focus on consumer protection legislation. Existing proposals to significantly tighten the existing rate cap in Poland are no longer on the current legislative agenda, though a further proposal is possible and we continue to monitor the situation closely. A review of market standard rebating practices is underway in Poland. Revised APR caps in Finland and Latvia were enacted in 2019 and a new APR cap in Romania was deemed unconstitutional. Revised proposals are currently tabled in the Romanian Parliament. We further enhanced our regulatory management framework, including contingency plans to address any future regulations.</p>
<b>2 Competition and product proposition</b>			
<p><b>D M E</b> ↔</p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>We suffer losses or fail to optimise profitable growth through not responding to the competitive environment or failing to ensure our proposition meets customer needs.</p> <p><b>Objective</b></p> <p>We aim to ensure we understand competitive threats and deliver customer-focused products to drive profitable growth.</p>	<p><b>Impact</b></p> <p>In an environment where customer choice is growing, ensuring our product meets customers' needs is critical to delivering profitable growth.</p> <p><b>Likelihood</b></p> <p>Competition varies by market. However, although Europe is a highly competitive region, increased regulation has resulted in a more stable landscape.</p>	<p>Regular monitoring of competitors and their offerings, advertising and share of voice in our markets. Action plans on competition threats. Regular surveys of customer views on our product offerings. Product development committees established across the Group to review the product development roadmap, manage product and introduce new products. Competition and products are high on the agenda of the senior management group.</p>	<p>For more information see the market review on page 14.</p> <p>In Europe, the impact of regulation has stabilised competition.</p> <p>In European home credit, campaigns to improve customer acquisition and retention reduced the rate of decline in customer numbers. We have extended our product offering by serving larger, longer-term loans, Provident-branded digital loans and value-added services including insurance. We are also testing a mobile wallet in Finland and expect to roll out the offering into more countries during 2020. In Mexico, competition is stable and digital lending remains small scale.</p>

**Link to strategy**

- D** Growth focus – IPF Digital
- M** Growth focus – Mexico home credit
- E** Returns focus – European home credit

**Commentary**

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




Risk	Relevance to strategy	Mitigation	Commentary
<b>3 Taxation</b>			
<p><b>D M E</b> </p> <p><b>Lead responsibility:</b> <b>Chief Financial Officer</b></p> <p>We suffer additional taxation or financial penalties associated with failure to comply with tax legislation or adopting an interpretation of the law that cannot be sustained.</p> <p><b>Objective</b></p> <p>We aim to generate shareholder value through effective management of tax while acting as a good corporate citizen. We are committed to ensuring compliance with tax law and practice in all of the territories in which we operate.</p>	<p><b>Impact</b></p> <p>Against a backdrop of increasing fiscal challenges for most economies, many authorities are turning to corporate taxpayers to increase revenues, either via taxation reforms or through changes to interpretations of existing legislation.</p> <p><b>Likelihood</b></p> <p>The likelihood of changes or challenges arising from tax legislation varies by market. Globally, OECD and EU-led developments may lead to an increase in audits and enquiries into cross-border arrangements.</p> <p>Our Brexit contingency planning includes taxation of transactions.</p>	<p>Binding rulings or clearances obtained from authorities where appropriate.</p> <p>External advisors used for all material tax transactions.</p> <p>Qualified and experienced tax teams at Group level and in market.</p> <p>Appropriate oversight at executive level over taxation matters.</p>	<p>See the financial review on page 42 and 43 for further detail on taxation.</p> <p>We have ongoing tax audits in Poland, Hungary, Mexico, Spain and Finland. During 2019 audits were closed in Slovakia and Poland.</p> <p>In October 2019 the Polish tax audits of 2010 to 2012 were closed and adjustments for years 2013 to 2017 were agreed. The years 2008 and 2009 remain open and we expect these cases to be heard in court in the first half of 2020.</p> <p>We filed an annulment application with respect to the European Commission's Decision on State Aid announced in April 2019.</p>
<b>4 Technology and change management</b>			
<p><b>D M E</b> </p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>We suffer losses or fail to optimise profitable growth due to a failure to develop and maintain effective technology solutions or manage key change projects in an effective manner.</p> <p><b>Objective</b></p> <p>We aim to effectively manage the design, delivery and benefits realisation of major technology and strategic business projects and deliver according to requirements, budgets and timescales. We look to maintain systems that are available to support the ongoing operations in the business.</p>	<p><b>Impact</b></p> <p>A core part of our strategy is to modernise our home credit operation and invest in digital developments. Effective management of the initiatives within this programme is essential. The Group is currently undergoing a large project programme which carries significant levels of inherent risk. Failure to deliver projects or maintain our IT estate could lead to issues in benefits realisation or business disruption.</p> <p><b>Likelihood</b></p> <p>Our project programme is complex, covering numerous markets. As such there is a level of risk associated with its delivery. Unforeseen outages can happen against key systems as a result of change or failures in technology.</p>	<p>Appropriate methods and resources used in the delivery of programmes.</p> <p>Programmes are continually reviewed with strong governance of all major delivery activity.</p> <p>Ongoing reviews of our services and relationships with partners ensure we maintain effective service operations.</p> <p>Annual review undertaken to prioritise investment required in underlying technology ensures appropriateness of the underlying technology estate.</p> <p>A dedicated technology committee to oversee technology and change risks.</p>	<p>Effective oversight of the strategic project deliveries within the portfolio is ensured through the operation of a governance framework which supports the achievement of our strategic objectives, and through a prioritisation process that objectively identifies the priority technology and key business projects.</p> <p>We continued to modernise the home credit business through agent mobile technology, which is now rolled out across Europe, and new sales functionality will be introduced in 2020.</p>


Risk	Relevance to strategy	Mitigation	Commentary
<p><b>5 People</b></p> <p><b>D M E</b> ↔</p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>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.</p> <p><b>Objective</b></p> <p>We aim to have sufficient breadth of capabilities and depth of personnel to ensure that we can meet our strategic objectives.</p>	<p><b>Impact</b></p> <p>In order to achieve our strategic goals, we must continue to attract, engage, develop, retain and reward the right people. The very nature of people risk means that it is often difficult to reduce the frequency with which risks occur; however, our controls are aimed at lowering the impact of any risks. The Group's largest people-related risk relates to agent turnover.</p> <p>Progress has been made this year in critical areas of the Group with work still to be done in others. The focus on retention will continue for the foreseeable future.</p> <p><b>Likelihood</b></p> <p>Our people, organisation and planning processes ensure that we develop appropriate and significant strength and depth of talent across the Group and we have the ability to move people between countries, which reduces our exposure to critical roles being under-resourced. During 2020, we will continue to develop, resource, retain and reward the right people.</p>	<p>Our HR control environment identifies key people risks and the key controls that we have in place to mitigate them. The key people risks and commensurate controls cover:</p> <ul style="list-style-type: none"> <li>• Critical skills shortage</li> <li>• Lack of succession to critical roles</li> <li>• Recruitment risks</li> <li>• Appropriate distribution of strategy-aligned objectives</li> <li>• Monitoring and action with regards to key people risks and issues</li> <li>• Key people processes</li> <li>• Appropriate use of reward and compliance with delegated authority from the Remuneration Committee</li> </ul>	<p>In 2019, we began to identify, assess, monitor and address culture and behaviour. A specific framework is now in place and enforced to address this risk which we intend to mitigate.</p> <p>We also researched, developed and will deploy a global employee value proposition which will describe what we stand for and offer as an employer. See page 34 for further details.</p> <p>We have commenced major programmes in Mexico and European home credit to map and build best practice improvements to our agent and field manager experience.</p>
<p><b>6 Business continuity and information security</b></p> <p><b>D M E</b> ↔</p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>We suffer losses or fail to optimise profitable growth due to a failure of our systems, suppliers or processes or due to the loss, theft or corruption of information.</p> <p><b>Objective</b></p> <p>We aim to maintain adequate arrangements and controls that reduce the threat of service and business disruption and the risk of data loss to as low as reasonably practicable.</p>	<p><b>Impact</b></p> <p>We record, update and maintain data for each of our customers on a daily basis. The availability of this data, the continued operation of our systems and processes, and availability of our critical suppliers, are essential to the effective operation of our business and the security of our customer information.</p> <p><b>Likelihood</b></p> <p>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.</p>	<p>Technology systems and services are designed for resilience and tested before launch.</p> <p>There is periodic testing and ongoing monitoring of security and recovery capability for technology and premises.</p> <p>Organisation structure in place with qualified people in role.</p> <p>A dedicated committee to oversee business continuity, information security, and technology and change risks.</p>	<p>During 2019, we tested our information security controls by employing an external company of ethical hackers to identify any vulnerabilities in the access of our IT systems and we continue to work towards further improvement.</p> <p>We continued to use the enhanced network monitoring tool introduced in 2018 to identify any security issues generated by unusual behaviours in the network across all our markets.</p> <p>We performed regular tests and rehearsals of our communication processes and our plans for alternative worksites, where applicable. We also continued our rolling programme of security improvements.</p>

**Link to strategy**

- D** Growth focus – IPF Digital
- M** Growth focus – Mexico home credit
- E** Returns focus – European home credit

**Commentary**

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

Risk	Relevance to strategy	Mitigation	Commentary
<b>7 Reputation</b>			
<p><b>D M E</b> </p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>We suffer financial or reputational damage due to our methods of operation, ill-informed comment or malpractice.</p> <p><b>Objective</b></p> <p>We aim to promote a positive reputation based on a mutual understanding of what we do that will help the Group deliver its strategic aims.</p>	<p><b>Impact</b></p> <p>Our reputation and that of the consumer lending sector can have an impact on both customer sentiment and the engagement of key stakeholders, impacting our ability to operate and serve our customer segment. Elements of this risk relate to external factors that are beyond our influence. Controls in place have reduced residual risk. There is now limited ability to reduce this significantly.</p> <p><b>Likelihood</b></p> <p>We maintain strong relationships with key stakeholders across the Group in order to develop their understanding of our business model and how we deliver services to our customers. This helps protect the business from unforeseen events that could damage our reputation.</p>	<p>Clearly defined corporate values and ethical standards are communicated throughout the organisation and employees and agents undertake annual ethics e-learning training.</p> <p>Regular monitoring of key reputation drivers.</p> <p>Media strategy to support the key drivers of reputation and sector reputation strategy.</p> <p>Strong oversight by the senior management group on reputation challenges.</p>	<p>We continued to receive industry awards for the way we conduct our business. We have been recognised for our responsible lending practices, as a top employer and for being a socially responsible business.</p> <p>We take a proactive approach to reputation management and update the market on material challenges that we are required to disclose.</p>
<b>8 World economic environment</b>			
<p><b>D M E</b> </p> <p><b>Lead responsibility:</b> <b>Chief Financial Officer</b></p> <p>We suffer financial loss as a result of a failure to identify and adapt to changing economic conditions adequately.</p> <p><b>Objective</b></p> <p>We aim to have business processes that allow us to respond to changes in economic conditions and optimise business performance.</p>	<p><b>Impact</b></p> <p>Changes in economic conditions may have an impact on our customers' ability to make repayments. This risk is led entirely by external factors that are not controllable and is driven by the business model and in particular the specifics of the markets in which we operate.</p> <p><b>Likelihood</b></p> <p>While we operate in numerous markets, the likelihood of a change in economic markets that we are unable to respond to, and that impacts our strategy, is minimised by our short-term lending business models.</p>	<p>Treasury committees review economic indicators.</p> <p>Monitoring of macroeconomic conditions, geopolitical events on financial markets and national news briefings.</p> <p>Strong, personal customer relationships inform us of individual customer circumstances.</p>	<p>Unsecured consumer lending continues to grow at a steady rate. Macroeconomic conditions in all our European markets are expected to deliver positive GDP growth, low unemployment and moderately increasing inflation in 2020. While GDP growth in Mexico is estimated to contract during 2019, it is forecast to return to modest growth in 2020.</p> <p>With reference to the possibility of a no-deal Brexit at the end of the transition period in December 2020, as our European operations are all within the EU and trade under locally granted licences, we continue to believe that there should not be significant operational disruption. This assessment will be kept under review as negotiations between the UK government and the EU develop.</p>

Risk	Relevance to strategy	Mitigation	Commentary
<p><b>9 Safety</b></p> <p><b>D M E</b> ↔</p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>The risk of personal injury or harm to our agents or employees.</p> <p><b>Objective</b></p> <p>We aim to maintain adequate arrangements and controls that reduce the risks to as low as is reasonably practicable.</p>	<p><b>Impact</b></p> <p>A significant element of our business model involves our agents and employees interacting with our customers in their homes or travelling to numerous locations daily. Their safety while performing their role is paramount to us.</p> <p><b>Likelihood</b></p> <p>Safety risks typically arise from the behaviour of individuals both internal and external to the business and, therefore, it is not possible to remove the risk entirely with the current business model involving 20,000 agents. Improvements, however, are constantly sought to reduce the risk where possible.</p>	<p>Safety management systems based on internationally recognised standards.</p> <p>Market safety committees and annual safety survey.</p> <p>Bi-annual risk assessment for each agency including mitigation planning and field safety training.</p> <p>Annual self-certification of safety compliance by managers.</p> <p>Regular branch safety meetings and safety awareness campaigns.</p> <p>Role-specific training and competence matrix.</p>	<p>Our home credit businesses either gained or neared completion of the ISO 45001 Occupational Health and Safety Management Standard.</p> <p>We have a safety strategy specifically for our Mexico home credit business where inherent risks are greater than those in Europe both in terms of likelihood and impact. In 2019, a series of actions were agreed, and are being implemented to further mitigate the residual risk.</p> <p>The Group safety policy was reviewed and reissued in 2019.</p>
<p><b>10 Funding, market and counterparty</b></p> <p><b>D M E</b> ↔</p> <p><b>Lead responsibility:</b> <b>Chief Financial Officer</b></p> <p>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.</p> <p><b>Objective</b></p> <p>We aim to maintain a robust funding position, and to limit the impact of interest rate and currency movements and exposure to financial counterparties.</p>	<p><b>Impact</b></p> <p>Funding at appropriate cost and on appropriate terms, and management of financial market risk, are necessary for the future growth of the business.</p> <p><b>Likelihood</b></p> <p>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.</p>	<p>Adherence to Board-approved policies monitored through the Treasury Committee, finance leadership team and regular Board reporting.</p> <p>Funding plans presented as part of budget planning.</p> <p>Senior management group oversight.</p> <p>Strong relationships maintained with debt providers.</p>	<p>Further details on funding are in the financial review on pages 41 and 42.</p> <p>Our business has a strong funding position with good headroom on undrawn bank facilities. We have continued to execute our strategy of diversifying the sources of funding and extending the maturity profile.</p> <p>Our credit rating position improved following the affirmation of a BB rating by Fitch and the revision of the outlook from negative to stable, together with a new rating from Moody's of Ba3 stable outlook.</p> <p>Hedging of market risk and limits on counterparty risk are in line with Board-approved policies.</p> <p>We plan to materially refinance our Eurobond by the end of 2020.</p>



**Link to strategy**

- D Growth focus – IPF Digital
- M Growth focus – Mexico home credit
- E Returns focus – European home credit

**Commentary**

- ↑ Risk environment improving
- ↔ Risk environment remains stable
- ↓ Risk environment worsening

Risk	Relevance to strategy	Mitigation	Commentary
<b>11 Credit</b>			
<p><span style="background-color: #0070C0; color: white; padding: 2px 5px;">D</span> <span style="background-color: #800080; color: white; padding: 2px 5px;">M</span> <span style="background-color: #800000; color: white; padding: 2px 5px;">E</span> <span style="color: #0070C0;">↔</span></p> <p><b>Lead responsibility:</b> <b>Chief Executive Officer</b></p> <p>The risk of the Group suffering financial loss if its customers fail to meet their contracted obligations or the Group failing to optimise profitable business opportunities because of its credit and collection strategies and processes.</p> <p><b>Objective</b></p> <p>We aim to maintain robust credit and collections policies and regularly monitor credit performance.</p>	<p><b>Impact</b></p> <p>With the expansion of our IPF Digital and Mexico home credit businesses, it is important that we retain control of credit losses in order to achieve our intended returns. For the European home credit businesses, we focus on writing profitable business to deliver strong returns to invest in building a long-term sustainable future. The nature of the business is such that the financial impact of credit risk, even at appetite levels, is substantial. Reducing credit risk further could result in reduced revenue and increased cost ratios. For new businesses, credit risk is higher due to the lack of historical data our credit scorecards rely upon to make adequate lending decisions and a higher proportion of new customers than in the established markets.</p> <p><b>Likelihood</b></p> <p>Our control environment means that we will see issues quickly and the systems in place mean that we can change credit settings quickly, and therefore the likelihood of suffering large losses is low.</p>	<p>Weekly credit reporting on the quality of business at time of issue as well as the overall portfolio. This feeds into weekly performance calls between each business and the Group credit director.</p> <p>Monthly local credit committees, a monthly Group credit committee and monthly performance calls between each business and the Group management team.</p> <p>When a change is introduced, the credit systems allow for a testing approach that gives direct comparison of the current 'champion' regime against the new 'challenger'.</p> <p>Scorecard and portfolio quality monitoring.</p>	<p>Overall, credit quality at Group level was maintained in the middle of our target range.</p> <p>Credit quality in European home credit is excellent as a result of good agent collections alongside stable post-field collections.</p> <p>In Mexico home credit, portfolio quality deteriorated in the first half of 2019 due to poorer agent collections. We implemented a series of operational actions to improve performance and there have been some encouraging signs in early lead key performance indicators.</p> <p>Impairment in IPF Digital increased driven by a shift in the mix of the portfolio away from the established markets, which operate with lower and stable loss rates, together with higher than planned impairment in the new markets. Consequently, we took prompt action to tighten our credit scorecards in Poland and Spain.</p>

## Viability statement

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

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

## Assessment of continuing operations

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

## Business planning and stress-testing

The Group undertakes an annual business planning and budgeting process that includes an update to strategic plans together with an assessment of expected performance, cash flows, funding requirements and covenant compliance. The plan is stress-tested in a variety of downside scenarios that reflect the crystallisation of the Group's principal risks with particular reference to regulatory, taxation, funding, market and counterparty risks as outlined on pages 46 and 52 respectively and the consequent impact on future performance, funding requirements and covenant compliance. Consideration has also been given to multiple risks materialising concurrently and the availability of mitigating actions that could be taken to reduce the impact of the identified risks. In addition, reverse stress-testing is performed to provide the Board an understanding of the magnitude of change required to a number of stress factors to breach a covenant, therefore providing context for the other stress scenarios.

## Viability Assessment

The Directors have determined that three years is an appropriate period over which to provide the viability statement because it aligns to the key period of the planning process, and reflects the relatively short-term nature of our business and the ability to change products, adjust credit risk in the receivables book and flex our business model. In making this statement, the Directors have assumed that both the wholesale funding markets remain accessible so as to allow the Group's existing arrangements to be refinanced, in particular its main Eurobond, 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.



For further information on funding see page 41

## Approval of the Strategic Report

This Strategic Report has been approved by the Board of Directors and signed on its behalf by:

### Gerard Ryan

Chief Executive Officer

26 February 2020

# Chairman's introduction



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

**Dan O'Connor**  
Chairman

## Dear Shareholder,

Welcome to the Corporate Governance Report for the year ended 31 December 2019. Good governance and control are at the heart of a well-run business. The recent changes in the UK Corporate Governance Code emphasise the important role played by companies today and I recognise the key role our Board has in setting the tone and encouraging broader stakeholder engagement. We are committed to the creation of long-term sustainable value for the benefit of our shareholders, and wider stakeholders, particularly our customers, and strong and robust corporate governance is integral to supporting this.

## Q. Are you satisfied with the composition of the Board?

The balance of skills and capabilities of the Board is a key focus when new appointments are made. We are committed to supporting diversity and inclusion in the Boardroom and across the organisation as a whole. Perspective, skills and knowledge combine to contribute towards a high performing and effective Board and as a supporter of the Hampton Alexander Review, we are pleased to report that the Board currently has 38% female representation thereby exceeding the Hampton Alexander Review target.

This year we undertook an externally-led Board evaluation process and I am pleased to report that the review concluded that the Board remains effective. Further details are on page 64.

## Q. What have been the main Board changes?

To further strengthen the expertise of the Board, we will appoint two new independent non-executive directors, Stuart Sinclair and Richard Holmes, with effect from March 2020. I informed the Board that I intend to retire as Chairman of the Company at the close of the AGM and Stuart will, subject to his election at the AGM, succeed me as Chairman. Stuart, who is an experienced non-executive director, committee chair and senior independent director within the consumer financial services sector, will also join the Remuneration and Nomination committees. Richard who has more than 40 years of broad international financial services experience, will join the Audit and Risk Committee.

After 12 years with the IPF Board, Tony Hales stepped down following the AGM in May 2019. As I said at the time, I would like to thank Tony for his support and excellent contribution to the Board. Richard Moat, who replaced Tony as the Senior Independent Director, has been a non-executive director since 2012 and Chair of the Audit and Risk Committee since 2015.

## Q. How are you engaging with stakeholders?

During the year I spent time meeting investors and employees. In April I held meetings with both the European home credit and IPF Digital management teams in Warsaw. I gained valuable insight into day-to-day operations, the challenges being faced, and the proactive approach of our teams. In October, the Board held its meeting in Hungary and, over two days, received presentations from the European home credit regional manager and the Group corporate affairs director on work being undertaken to make the European business more sustainable. In November, Richard Moat and I met with key shareholders and discussed, among other things, the extremely positive progress made in Poland relating to tax audits.

It was also the first year for Bronwyn Syiek as our workforce and stakeholder engagement director. A case study of her first year is on page 65 and on pages 65-66 you will find further information on how we engaged with our stakeholders in 2019. Greater understanding of stakeholders' perspectives, allows us to better meet their needs by providing relevant products and services to our customers, retaining and developing engaged employees, getting the best from our suppliers, enhancing our reputation with local communities and regulators and enabling investors to fully understand our business.

### Q. What example is the Board setting on culture?

The Board recognises the importance of its role in setting the tone of the Group's culture and embedding it throughout the business. I am committed to instilling and upholding the values we expect to see from all our employees and agents.

The Group's cultural climate is measured through a number of channels including policy and compliance processes, the Board evaluation, internal audit, and formal and informal channels for employees to raise concerns. Those channels were a particular focus in 2019 as we monitored the implementation and roll-out of our new and more accessible whistleblowing programme 'Speak Up'. This was launched as part of the Group-wide ethics week initiative and the Board is being kept informed

of reporting output. The Board also monitored the success of the mental health first aider programme and the mental health awareness week initiative which was well received throughout the Group.

**For further information, see pages 20, 34 and 65.**

### Q. How did the Board reflect on strategy in 2019?

The Board engaged on the Group's strategy at multiple touch points throughout the year. These included a two-day strategy retreat to debate priorities and agree implementation plans; deep-dive sessions on key areas including the enhanced use of data analytics; presentations made by operational teams at four Board strategy dinners; and a wide range of informal interactions with the Group's management and operational teams.

### Q. What are the key areas of focus for 2020?

The Board will continue to monitor the operational and financial performance of the Group's businesses with a particular focus on the improvement in the consistency of operational execution and financial performance in Mexico, the performance of IPF Digital and the modernisation of our European home credit businesses to deliver returns. Board oversight will continue to monitor the investment in IT to support the business strategy, the refinancing of the Eurobond and the progression of the 2008 and 2009 tax audit cases in Poland.

## Our strategy retreat

This year's strategy retreat took place in June 2019 and was led by the Group's director of strategy and planning and attended by the Board. The agenda was set around several critical questions agreed through collaboration between the executive and non-executive directors. These included:

- What are the major external forces changing our world?
- Is our current strategy working and is it still relevant?
- What steps should we take to improve long-term sustainability?
- How do we inspire and engage the next generation of employees and agents?

Debate focused on the key challenges the business faces, and, in particular, on how the Group was responding and the level of risk the Board was prepared to take in pursuit of its objectives.

Throughout the strategy retreat, the interests of all stakeholders were at the forefront of the Board's considerations. The non-executive directors contributed personal insights and views, based on their own business experience. The participation of external advisors and senior managers also provided varied and stimulating insights which contributed to the Board's debate.

#### Key outcomes:

- The existing strategy was fully reviewed in the context of the changing external environment and confirmed as appropriate without material change.
- A number of new and enhanced capabilities and investments were agreed to support our strategic delivery, particularly in support of our data, customer experience and technology agendas.
- Work has been commissioned to develop the Company's employee value proposition to illuminate the positive role we play in society and also understand and develop opportunities to leverage our culture.

**The Board values the opportunity to discuss in detail the Company's strategy and implementation of plans at our annual two-day strategy retreat.**



**Dan O'Connor** Chairman

N R

**Length of service:** 5 years and 2 months

**Responsibilities:** Good corporate governance and best practice, leading an effective Board and having regular constructive engagement with shareholders and other stakeholders.

**Key skills:** Strong, strategic leadership; 30 years international and financial services sector experience.

**Contributions:** Encourages active engagement by all Board members to provide a rigorous and robust decision-making process with sufficient independent scrutiny and challenge.

**Current directorships:** Non-executive director of Glanbia plc and Activate Capital Ltd.

**Former roles:** Non-executive director of CRH plc and Garanti Bank, Chairman of Allied Irish Banks plc, CEO of GE Consumer Finance Europe, Senior Vice President of General Electric.

**Qualifications:** Master's Degree in Accounting and a fellow of the Institute of Chartered Accountants in Ireland.



**Gerard Ryan** Executive director and Chief Executive Officer

D E N

**Length of service:** 8 years and 1 month

**Responsibilities:** Group strategy, operational management and leadership of the Group Executive Committee and senior management group. Ensuring good relations with employees and agents, regulators and investors.

**Key skills:** Effective inspirational leadership with strategy and objective implementation; over 25 years' multi-country experience in consumer financial services.

**Contributions:** Acute market insight which provides a real advantage in driving the implementation of the strategy and identifying and pursuing growth opportunities.

**Former roles:** CEO for Citigroup's consumer finance businesses in Western Europe, Middle East and Africa region, a director of Citi International plc, Egg plc and Morgan Stanley Smith Barney UK, CFO of Garanti Bank, Turkey and CEO of GE Money Bank, Prague.

**Qualifications:** Fellow of the Institute of Chartered Accountants in Ireland.



**Justin Lockwood** Executive director and Chief Financial Officer

D E

**Length of service:** 3 years

**Responsibilities:** All aspects of the Group's financing, financial performance, and reporting; Board accountability for internal audit and tax; the executive relationship with the external auditor; and leadership of the Group finance team and other corporate functions.

**Key skills:** Strong financial leadership; over 15 years' experience within the Group in a variety of senior financial management roles and has a detailed understanding of the Group's businesses and its markets.

**Contributions:** Broad and deep understanding of the Group's operations, enables him to be particularly effective in supporting the Board and the Executive Committee in driving optimum financial performance.

**Former roles:** Group Head of Finance for seven years before being appointed to the Board as Chief Financial Officer with senior finance roles at Associated British Ports, Marshalls plc, and PwC in the UK and Australia.

**Qualifications:** Degree in Business Administration and a member of the Institute of Chartered Accountants.



**Deborah Davis** Independent non-executive director

A N R

**Length of service:** 1 year and 4 months

**Key skills:** Experience in fintech, consumer and technology businesses undergoing digital transformation, growth and geographic expansion. Digital technology expertise including omni-channel payments; over 25 years' senior leadership experience in high growth companies in international markets.

**Contributions:** Provides the Board with valuable strategic and operational insights on growth and expansion of IPF Digital as well as customer experience, innovation and governance throughout the Company.

**Current directorships:** Non-executive director of The Institute of Directors and Which? Limited in the UK, IDEX Biometrics in Norway, and is a Trustee of Southern African Conservation Trust in South Africa.

**Former roles:** Vice President of Global Partnerships, and Vice President of Global Risk Operations at PayPal based in London and Vice President of European Operations for eBay Marketplaces based in Germany. Member of The Digital Banking Club Advisory Panel and non-executive director of IE Digital.

**Qualifications:** Certificate in Company Direction with Distinction, MSc in Management, BAppSc in Electronics and a fellow of the Institute of Directors UK.

**N** Nomination Committee  
**T** Technology Committee

**A** Audit and Risk Committee  
**E** Executive Committee

**R** Remuneration Committee  
**D** Disclosure Committee

**W** Workforce and stakeholder engagement director  
**Chair**





### Richard Moat

Senior independent non-executive director

A R T

**Length of service:** 7 years and 8 months

**Responsibilities:** Chair of the Audit and Risk Committee

**Key skills:** Skilled executive with extensive financial and operational acumen, international experience with leadership of a listed company; more than 25 years' telecoms experience in senior management roles and proven expertise in corporate governance and best practice.

**Contributions:** Works closely with the Chairman, acting as a sounding board and providing support; has director contact with shareholders at the Chairman's lunch to obtain a balanced understanding of their interests and any issues.

**Current directorships:** Appointed CEO of Technicolor plc on 5 November 2019 and is a non-executive director of Eir Limited.

**Former roles:** CEO of Eir Limited, Deputy CEO and CFO of Everything Everywhere Limited, Managing Director of T-Mobile UK Limited and Chief Executive of Orange Romania SA, Orange Denmark A/S and Orange Thailand Limited.

**Qualifications:** Diploma in Corporate Finance and Accounting; Master's (Honours) Degree in Law and a fellow of the Association of Chartered Certified Accountants.



### John Mangelaars

Independent non-executive director

N T

**Length of service:** 4 years and 7 months

**Responsibilities:** Chair of the Technology Committee.

**Key skills:** Extensive experience in sales, e-commerce and marketing of online products such as MSN Messenger, Hotmail and Bing; over 20 years' experience in an international technology business.

**Contributions:** His experience supports the expansion of our digital lending business and the Company's objective to increase its technology capabilities.

**Current directorships:** CEO of online travel agency Travix International.

**Former roles:** Various roles at Microsoft since 1990 including Vice President of Europe for Advertising & Online and Vice President of Western Europe for Consumer & Online.

**Qualifications:** Bachelor in Information and Communication Technology (BICT).



### Cathryn Riley

Independent non-executive director

N R T

**Length of service:** 6 years

**Responsibilities:** Chair of the Remuneration Committee.

**Key skills:** Strong commercial and financial acumen with proven track record in technology, large complex operational roles and in leading change; 20 years' experience in insurance and financial services, together with international roles.

**Contributions:** A wealth of experience in major IT transformation programmes, implementing new distribution channels and customer service. An experienced remuneration committee chair with strong leadership, people and relationship skills.

**Current directorships:** Non-executive director of AA plc and AA Insurance Holdings Limited.

**Former roles:** Group Chief Operations Officer at Aviva plc, other roles with Aviva included Group CIO, UK Commercial Director, COO and Customer Experience Director of UK Life, and chair of Aviva Healthcare UK Ltd, Aviva Global Services and Hill House Hammond. General manager of transformation at BUPA and a principal consultant in the financial services division at Coopers & Lybrand, non-executive director of Equitable Life Assurance Society, Chubb European Group plc and Reassure Group plc.

**Qualifications:** MA in Manpower Studies, completed CeDEP's general management programme, was a graduate of the Institute of Personnel/HR Management.



### Bronwyn Syiek

Independent non-executive director

A W T

**Length of service:** 1 year and 4 months

**Responsibilities:** Workforce and stakeholder engagement director.

**Key skills:** 15 years' leadership experience in high-growth businesses in Silicon Valley, responsible for the development of industry-leading technologies and consumer direct marketing. She also brings experience as an executive and a non-executive director gained in a non-profit scientific research organisation and education; 14 years' experience as a consultant, focused on strategy and change in large international companies; and extensive experience in M&A.

**Contributions:** Bronwyn's involvement in Board discussions is extremely helpful, given her knowledge of online marketing and technology, promoting the right balance for the Board between guidance and oversight. She has a particular strength in creative problem solving,

and attracting, developing and retaining people.

**Current directorships:** Trustee of The SETI Institute, a US-based non-profit scientific research institute and contractor to NASA, and the examinations board ABRSM.

**Former roles:** Co-founder and President of NASDAQ-listed QuinStreet Inc., an online performance marketing products and technologies, serving a number of sectors including financial services. Management committee member of De La Rue, a major European provider of online and offline security products and services, and before that was a consultant with McKinsey & Company, Inc.

**Qualifications:** M.A. in Natural Sciences.

# Governance at a glance

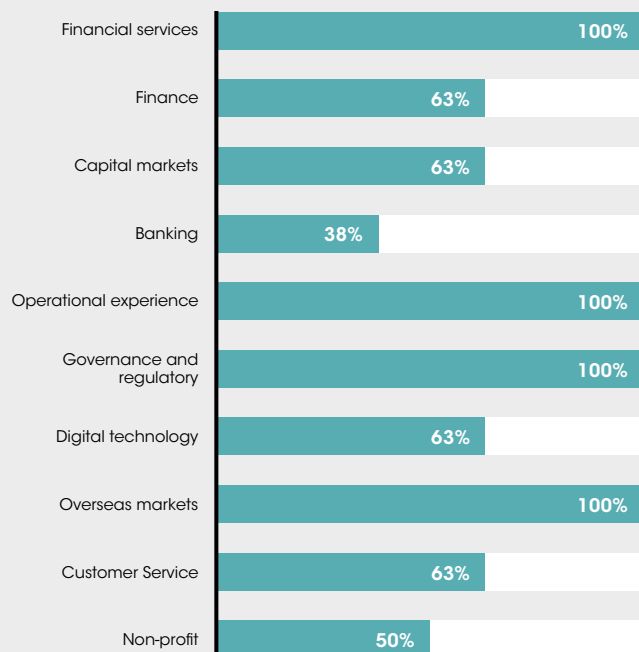
## 2019 highlights

- Greater time devoted to strategy with it being discussed at every Board meeting, a two-day strategy retreat and four dedicated strategy dinners, see page 55.
- Continued to monitor the impact of new regulation and mitigation planning for potential new regulation, see page 47.
- Appointed Richard Moat as senior independent director, see page 75.
- Enhanced our workforce and stakeholder engagement programme through our designated non-executive director, see pages 65-66.
- Consulted with our major shareholders on the proposed new remuneration policy, see page 84.
- Undertook an externally facilitated Board evaluation, see page 64.

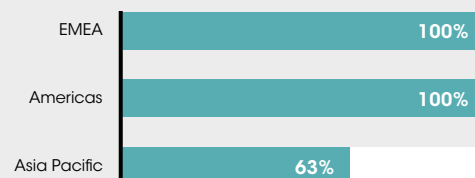
## Key priorities for 2020

- Continue to ensure that our strategy is at the forefront of Board discussions.
- Focus on promoting our purpose, values and culture, and their alignment with our strategy.
- Further investment in the development and transformation of IT to support the delivery of the business strategy.
- Continue to develop our stakeholder engagement programme to assist the Board in its decision-making.
- Review the terms of reference of the Board committees.
- Implement recommendations arising from the 2019 Board evaluation.

## Board experience



## Global experience



## Board attendance 2019

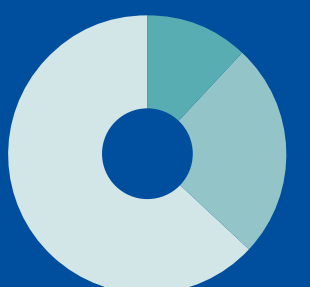
The table below shows the number of meetings held and the directors' attendance during 2019

Director	Scheduled meetings <sup>1</sup>	No. of meetings attended	% of meetings attended
Dan O'Connor	8	8	100%
Gerard Ryan	8	8	100%
Justin Lockwood	8	8	100%
Deborah Davis	8	8	100%
Tony Hales <sup>2</sup>	3	2	67%
John Mangelaars	8	8	100%
Richard Moat	8	8	100%
Cathryn Riley	8	8	100%
Bronwyn Syiek	8	8	100%

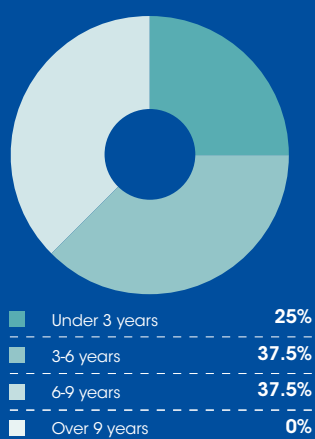
### Notes

- The scheduled meetings that each individual was entitled to and had the opportunity to attend.
- Tony Hales stepped down as a director from the Board at the 2019 AGM. He was unable to attend the February meeting due to a prior commitment.

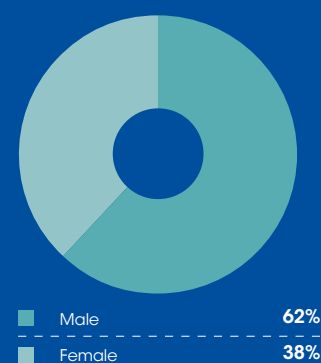
### Board composition



### Board tenure

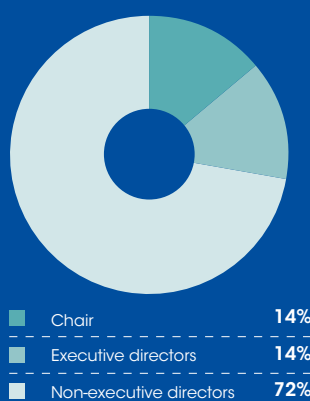


### Board diversity

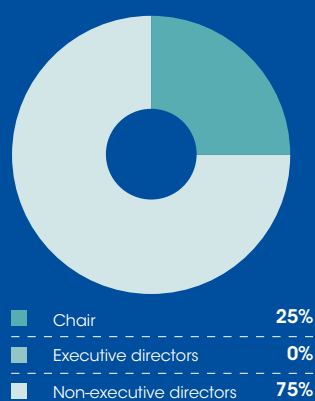


## Committee compositions

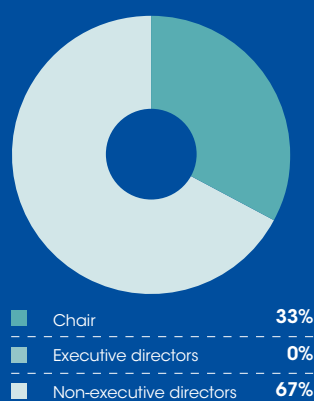
### Nomination Committee



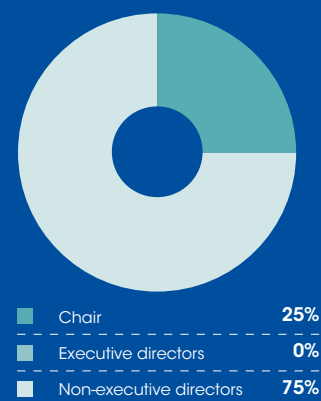
### Technology Committee



### Audit and Risk Committee



### Remuneration Committee



# Role of the Board and its committees

## The Board

### Role of the Board

The Board is responsible for creating and delivering long-term sustainable value for the business and is accountable for balancing the interests of the Group, including our customers, shareholders, employees and agents, regulators and the communities we serve. It sets the Group's strategy and objectives, and oversees and monitors internal controls, risk management, principal risks, governance and the viability of the Company. In doing so, the directors are fully aware of, and comply with, their responsibilities and duties under section 172 of the Companies Act 2006 (see page 31 for our s172(1) statement).

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

### Key matters reserved to the Board

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

## Board committees and their reserved matters

The Board delegates authority to the Board committees which are responsible for maintaining effective governance. The specific responsibilities of the Board's committees are set out in their terms of reference available on our website [www.ipfin.co.uk](http://www.ipfin.co.uk).

### Nomination Committee

- Review structure, size and composition of the Board and its committees
- Review annually the succession plan
- Assist in the process of selection and appointment of new directors
- Evaluate the balance of skills, knowledge, experience and diversity of the Board

### Audit and Risk Committee

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

### Remuneration Committee

- Approve all aspects of remuneration policy and make recommendations to the Board
- Determine the remuneration packages of the executive directors, the chairman, the company secretary and the senior management group
- Review wider workforce remuneration

### Technology Committee

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

### Executive Committee

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

### Disclosure Committee

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

## Board objectives

The Board was supported by its committees in progressing its objectives during the year as detailed below:

### 2019 progress

- Monitored the operational and financial performance of the Group's businesses including:
  - continued focus on delivering consistency of execution in Mexico;
  - successful delivery of a maiden profit by IPF Digital in 2019; and
  - continued evolution of the European home credit business delivering a great customer experience and generate strong returns to invest in modernising these businesses and in growing Mexico home credit and IPF Digital.
- Continued to monitor the Group's compliance with existing legislative and regulatory requirements and support improvement of Company and sector reputation to lower the risk of adverse regulation.
- Supported the development and deployment of technology across the business, with emphasis on the customer experience including the further development of agent mobile technology in all our European home credit markets.
- Supported the development of new products and channels, including IPF Digital's mobile wallet, whilst ensuring that loans were granted in a responsible and ethical manner through the use of robust application and behavioural scoring systems and application of the Group's compliance framework.
- Considered the needs and views of stakeholders to help generate and maintain long-term value. Monitored our engagement with Polish tax authorities which resulted in a satisfactory conclusion regarding 2010 to 2017.
- Continued to support the Group's people strategy in respect of leadership, development and succession planning, and approved the employee value proposition for roll-out across the Group in 2020.
- Monitored the strength of the Group's balance sheet and the development of the longer-term funding strategy.
- Monitored the Group's cultural climate.

### Key priorities for 2020

- Monitor the operational and financial performance of the Group's businesses, including:
  - continued improvement in the consistency of operational and financial performance in Mexico;
  - continued profitable growth in IPF Digital; and
  - investment in the continued modernisation of the European home credit business to deliver sustainably strong returns to fund our growth opportunities.
- Continue to monitor the Group's compliance with existing legislative and regulatory standards, together with mitigation planning for possible new regulation.
- Support the development of technology across the business with emphasis on the customer experience, customer retention and profitability.
- Continue to monitor the principal and emerging risks facing the Group, establishing the Group's risk appetite for each, and promoting actions to ensure that, so far as possible, each risk falls within such risk appetite.
- Consistently consider the needs and views of all stakeholders in the Group's business.
- Continue to support the Group's people strategy in the furtherance of leadership, development and succession planning.
- Monitor the strength of the Group's balance sheet and the development of longer-term funding strategy, and support the refinancing of the Eurobond.
- Promote the alignment of the Company's culture with its purpose, values and strategy, and reinforce its ethical and safety standards.



## Board activities during 2019

The Board is responsible for promoting the long-term success of the Company while ensuring that it has an appropriate risk and control framework, adequate resources and core values to deliver its strategy. The table below summarises the Board's activities over the year and the discussions that took place to discharge its duties to the Company. Our s172(1) statement is on page 31.

### Strategy and management

- Two-day strategy retreat to discuss and evaluate the focus and risks for the Group's strategy and business plan.
- Four Board strategy dinners enabled deep dives into particular topics including how to attract customers in IPF Digital and initiatives to mitigate the effects of regulatory change.
- Reviewed KPIs and considered trading performance against KPIs.
- Received updates and discussed the ongoing transformation of the Group's technology capabilities.
- Received and approved a presentation on the Group's finance strategy.
- Received presentations on the Group's HR strategy including talent management and capabilities, succession planning and the senior management gender diversity split.
- Received and reviewed regular updates on the performance of each business and considered key strategic and operational opportunities and challenges, regulatory and market developments, stakeholder considerations and material business outcomes.
- Increased focus on the delivery of operational excellence and consistency of execution.
- Monitored and kept under review the potential impact of Brexit on the Group.

### Risk management and internal controls

- Reviewed and approved risk appetite proposals and the schedule of principal risks.
- Reviewed the enhanced risk management reporting provided by the introduction of a new risk management control framework tool.
- Considered the framework for monitoring the Group's principal and emerging risks.
- Received regular health and safety updates including the success of the mental health first-aider programme.
- Received reports from the Audit and Risk Committee on the effectiveness of the Group's systems of risk management and internal controls.
- Approved the reappointment of Deloitte LLP as auditor on the recommendation of the Audit and Risk Committee.
- Monitored the implementation and roll-out of a new and more accessible business-wide 'Speak Up' whistleblowing service and monitored output from its operation.
- Received regular updates from the Audit and Risk Committee in respect of internal and external audit reviews.

### Financial reporting

- Received regular updates on performance against budget and forecast.
- Approved the 2018 Annual Report and Financial Statements.
- Reviewed the long-term viability and going concern statements in the 2018 Annual Report and Financial Statements.
- Reviewed and approved half and full-year results and announcements, together with quarterly trading updates.
- Approved interim and final dividends.
- Monitored the Group funding position including bond issuance and bank facilities, and approved the refinancing plan.
- Received updates on the improvement of the credit rating position.
- Approved the 2020 Group budget and business plan, reviewing key assumptions, inputs and risks, and monitored performance and variance against the 2019 plan.
- Received regular updates on the development of tax risk affecting the Group including the tax audits in Poland.
- Annual review and approval of the Group's tax strategy.

### Board composition and effectiveness

- Reviewed Board and Board committee succession plans and succession plans for senior management.
- Participated in an externally-facilitated Board evaluation and agreed actions following a review of findings.
- Received training on the operation of Serious Fraud Office investigations, a refresher on IFRS 9, as well as market visits, presentations and deep dives into particular topics at Board strategy dinners.
- Reviewed and considered conflicts of interest.

### Governance

- Considered the Group's cultural climate through a number of channels. Also monitored the implementation and roll-out of a new business-wide whistleblowing programme. See page 34.
- Commenced a review of the Company's bid defence strategy.
- Received updates from each Board committee and reviewed terms of reference for the Executive Committee and Risk Advisory Group.
- Reviewed and approved an update on the matters reserved for the Board.
- Agreed Board objectives for 2019

### Stakeholder engagement

- Communicated with our major shareholders on the proposed 2020 Remuneration Policy for approval at the 2020 AGM.
- As a result of feedback from shareholders in the run up to the 2019 AGM, it was agreed that we would publish prospective LTIP targets to increase transparency (see page 106).
- Visited the following local markets, to meet management and employees and agents, either individually or collectively: Czech Republic, Estonia, Finland, Hungary, Mexico, Poland, Romania and Spain.
- Reviewed feedback following investor roadshows.
- Considered initial activity and feedback from the workforce and stakeholder engagement director.
- Received updates on the management of regulatory issues and updates on our regulatory engagement strategy.
- Oversaw the 2019 Global People Survey which provided useful insights into the opinions of employee and agents.

## Board and committee evaluation

In accordance with the 2018 UK Corporate Governance Code and the Board's three-year cycle, the 2019 Board and committee evaluation was facilitated externally by EquityCommunications Limited which has no other connection with the Company or with any of the directors. EquityCommunications sent each director and the company secretary a questionnaire that had been designed specifically for IPF. The key areas of focus included strategy, Board composition, corporate culture and regulatory matters. The responses were assessed and evaluated by

EquityCommunications which produced a comprehensive report of its findings. Having conducted IPF's Board evaluation in 2016, EquityCommunications was well-placed to assess progress made. Strategy and succession planning were two specific areas of focus following the 2016 evaluation and the 2019 evaluation demonstrated that these have now been addressed successfully. No significant concerns were raised in the 2019 evaluation and the Board discussed the findings and recommendations, including succession planning for committees, before agreeing actions. The review concluded that the performance of the Board, its committees, the Chairman and each of the directors continues to be effective.

All directors demonstrated commitment to their roles and the boardroom culture was deemed effective and conducive for creating a positive environment for participation and challenge by the non-executive directors. The Board also considered its performance during the year and was satisfied that the directors had worked well together, and that the Board had discharged its duties and worked effectively with its committees. The composition of the Board in terms of its diversity, knowledge and skills base was evaluated and it was concluded that it was a balanced and diverse Board. Further information in terms of the outcomes and actions taken are detailed below:

### Key findings in 2018

Board members requested that more time be spent on strategic priorities in addition to considering near-term operational issues.

Training requirements in specific areas such as product development and customer intelligence were highlighted.

### Key findings in 2019

Positive feedback on the enhanced focus and time devoted to strategy.

Board composition and succession planning – the mix of skills and experience is appropriate and has been diversified and strengthened by recent appointments to the Board. Progress has been made on embedding succession planning into Board discussions.

Committees – the operation of the Board committees remains effective.

Corporate culture – the Board's values are aligned to those of the Group. The culture of the Board is open, transparent and collaborative with the Chairman demonstrating leadership and encouraging an open and transparent style.

Training and development – the Board received training on IFRS 9 and on the operation of Serious Fraud Office investigations. In addition, Board strategy dinners provided an opportunity to develop a deeper understanding of the markets in which the Group operates with presentations from country and senior managers on specific topics. The recently appointed non-executive directors undertook a successful induction.

Regulatory matters – the Board has confidence in the ability of the business to identify and manage future regulatory challenges.

### What we did

The two-day strategy retreat was valued by the Board as an opportunity to understand and debate management's perspective and recommendations. Strategy now features regularly at Board meetings and the introduction of Board strategy dinners has enabled deep dives into particular strategic issues.

The annual Board programme included regular presentations from management, market visits and informal meetings.

### What we are doing

Continue to develop and enhance the strategy retreat so that it retains focus. Strategy to continue to be discussed regularly at Board meetings and Board strategy dinners to continue.

Continued focus to enhance Board succession planning, particularly in respect of key roles, to ensure the correct composition and diversity of skills and experience to meet the Company's future strategic goals.

Ensure that committee terms of reference reflect future focus.

Build on the foundations set for a collaborative and open Board culture.

Continue to encourage non-executive directors to visit IPF businesses in order to gain insight into how our culture and values are translated into day-to-day operations.

Continue to monitor the training needs of the Board and to provide opportunities for non-executive directors to gain first-hand insights into the business by spending more time in our markets outside the formal Board meeting cycle.

Continue to build on the progress made on the regulatory engagement strategy to achieve compliance and assurance, and to operate with integrity.

## Stakeholder engagement

The Board maintains a broad-based awareness of the Group's engagement with its stakeholders, through a number of means including CEO reports at each Board meeting and regular business unit and functional reports throughout the year. The Board's nominated workforce and stakeholder engagement director, Bronwyn Syiek, led the Board in reviewing stakeholder engagement reports, two of which were tabled in 2019, and assisted the Board in considering and balancing the interests of stakeholders as the Board conducted its work.

In response to commentary in the 2018 Board evaluation, significantly more time was devoted to strategy discussions in 2019 enabling the Board to understand a broader range of topics including customer segmentation, and the viability of new products potentially enabling a broader and deeper engagement with customers.

### Considering our stakeholders

**"As the workforce and stakeholder engagement director, I took an active role in understanding the activities that facilitate our engagement with various stakeholders, particularly with employees. Early in 2019 I took part in a 'getting to know you' talk at the Group head office and I also held 'skip a level' meetings with employees reporting at a level below management. These gave me and other senior leaders a real insight as to what colleagues think and feel about working for IPF, what they value and what they would like to see changed."**

**Bronwyn Syiek**  
Workforce and stakeholder engagement director

## Specific initiatives and progress



### Customers

We want informed and engaged customers, whose credit needs are being met in an affordable way, who are delighted with the experience they have received and who are advocates for our products and services. All Board members visit home credit customers as part of their induction. In 2019, Bronwyn Syiek and Deborah Davis joined agents visiting customers in Hungary and Poland.

The Board spent time during the strategy retreat focused on customer advocacy. Discussions on improving the customer journey were undertaken to develop a deeper understanding of our customers and how best to engage with them, and customer-related themes were developed and discussed in detail during the Board's strategy dinners. In the context of both strategy review and reporting by the CEO and business unit leaders, the Board considered and discussed the output of extensive market research pointing to the development of new products, including a mobile wallet offering in IPF Digital.

The Board has placed emphasis on ensuring that customers buying insurance products through the Group are well-informed, receive good value and are being well-supported. Accordingly, the Board regularly monitors a number of insurance product specific value and compliance key performance indicators. In response to Board input, the range of such KPIs was expanded during the year, and improvement actions were undertaken.

Improvement actions identified through the 2019 Board evaluation include a decision to cover more customer-facing matters to appropriately balance in-depth financial reporting during 2020.



### Employees and agents

We need informed and engaged employees and agents who understand our purpose and how their work contributes to our goals. We want them to be proud of working for the business and motivated to give their best in serving our customers.

In addition to receiving reports from a number of business unit and functional leaders throughout the year, the Board has engaged directly with employees through the participation of both executive and non-executive Board members in employee conferences, 'town hall' style meetings and other ad hoc meetings. These provide an opportunity to update colleagues on performance or Group initiatives and give time for questions and feedback. Meetings during 2019 have included the participation of the Chairman and our nominated workforce and stakeholder engagement director, Bronwyn Syiek.

Additionally, the Board holds one of its scheduled meetings each year in one of the Group's markets and takes the opportunity to discuss business matters with local business and function leaders. In 2019, the Board held its October meeting at the Hungary home credit head office in Budapest.

In addition to regular reviews of the Group's HR Strategy (including talent management, succession planning, wellbeing, health and safety, and wider workforce remuneration), the Board took great interest in the Global People Survey that was conducted in 2019. The emergent collective opinions of employee and agents were considered, together with the action plans being undertaken.



## Regulators and legislators

We want regulators and legislators to understand the important role our business plays in extending financial inclusion in society. We are supportive of regulation that is well-considered and thereby effective in protecting consumer interests while maintaining our customers' access to legitimate, regulated credit.

The Board maintains a close interest in the Group's engagement with regulators and legislative stakeholders which is conducted primarily by the Group's corporate affairs function. The Board receives regular and detailed updates on actual and potential regulatory developments, and, considers the implications for the Group's strategy and purpose.

Findings from the Group's Financial Wellbeing report are shared with the Board twice a year to enable a greater understanding of the needs of consumers and how this information will be communicated to regulators and other key stakeholders and influencers.



## Suppliers

Our goal is to co-operate with informed and engaged suppliers who understand how their products and services contribute to the delivery of our business goals, and who also act according to our values and culture. That is why we take steps to develop as a reliable partner for our suppliers and at the same time to manage our business objectives properly.

In 2019, we focused on the qualitative and efficient application of the new procurement policy across the Group. The policy governs, among other things, how to properly engage with our suppliers, including preserving fair competition and equal treatment of suppliers. Our procurement teams also aim to encourage better social, ethical and environmental performance of our supply chain as part of sustainability practices and reputational risk management. This includes adoption of responsible supply chain management practices.

IPF has effectively implemented a regular quarterly procurement committee across European home credit, governing adherence to IPF procurement policy. Procurement teams have been supported in their efforts by internal audit whose recommendations have been implemented.

In 2020, along with implementation of the quarterly procurement committee in Mexico home credit and IPF Digital, we plan to engage with our key suppliers through a process known as Voice of the Supplier. This process will enable a better understanding of how we are perceived as a customer and what the other party's expectations are. Using this information we aim to streamline our interface activities, whilst ensuring effective, responsible and sustainable partnerships.



## Communities

We are committed to making a positive difference in the communities in which we serve our customers. Our international teams support various local organisations through financial and volunteer initiatives.

Engagement with communities is undertaken in each market by colleagues and in partnership with community groups. The Board receives updates on the initiatives that are undertaken and encourages broad participation across the Group. In 2019, non-executive director Bronwyn Syiek and company secretary James Ormrod took part in the IPF International Volunteer Month joining 3,600 colleagues across 12 countries in donating more than 8,200 working hours to our communities.

The Board, through its Technology Committee, has supported the digital transformation of European home credit with further enhancements to the Group's agent mobile technology. This has achieved a number of objectives during the year, including a considerable environmental benefit through the elimination of the use of paper in most agent activities.

With the support of the Board, the promotion of financial literacy has been a key component of the Group's community programmes in furtherance of our desire to extend financial inclusion across the communities we serve.



## Shareholders and investors

We want informed and engaged investors who, through a good understanding of our purpose, business model and operational and financial strategies, make informed investment decisions.

The Board's engagement with investors is primarily through the CEO and CFO, regular roadshows, investor updates and in response to specific requests. The Chairman and senior independent director also maintain an open relationship with our major shareholders providing the opportunity to speak or meet directly on request.

The Board seeks to ensure that the Group keeps equity and debt investors updated appropriately with regard to all material matters and developments, including those in relation to regulation, tax matters, funding plans and executive remuneration. Minutes of all meetings of the Board's Disclosure Committee are tabled at Board meetings.

The Chairman and senior independent director hosted a lunch for the Group's largest shareholders offering an opportunity to discuss the business and listen to their views. Additionally, through the Remuneration Committee the Board consulted with the Company's major shareholders on the proposed new remuneration policy to be tabled at the 2020 AGM.

The AGM is attended by the Board of directors and is open to all shareholders to attend.



## Compliance with the UK Corporate Governance Code 2018 (the Code)

The Company complied with the provisions set out in the 2018 version of the Code, which applied throughout the financial year ended 31 December 2019. The Code is available on the FRC's website: [www.frc.org.uk](http://www.frc.org.uk). We have a secondary listing on the Warsaw Stock Exchange but consider reporting in line with the Code as our primary obligation. We set out below how the Code principles have been applied.

### Board leadership and company purpose

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. See pages 30 to 37, and 65 to 66.

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture. See pages 4 to 5 and 18 to 21.

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. See pages 39 to 43 and 44 to 52.

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. See pages 65 to 66.

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern. See pages 34, 55 and 63.

### Division of responsibilities

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate.

In addition, the chair facilitates constructive board relations and the effective contribution of all non executive directors, and ensures that directors receive accurate, timely and clear information. See page 68.

The board should include an appropriate combination of executive and non executive (and, in particular, independent non executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. See page 68.

Non executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. See page 68.

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently. See page 68.

### Composition, succession, evaluation

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. See page 75.

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. See pages 56 to 57 and 64.

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. See page 64.

### Audit, risk and internal control

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself as to the integrity of financial and narrative statements. See pages 79 to 80.

The board should present a fair, balanced and understandable assessment of the company's position and prospects. See page 81.

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. See pages 44 to 52 and 78 to 79.

### Remuneration

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. See pages 89 to 96.

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. See page 93.

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. See page 106.

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

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

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

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

- the financial position of the Group (see page 43);
- principal risks and uncertainties (see pages 44 to 52); and
- the future development, performance and position of the Group (see page 53).

### Articles of Association (Articles)

The Articles may only be amended by a special resolution at a general meeting of the shareholders.

The Articles are available on our website at [www.ipfin.co.uk](http://www.ipfin.co.uk) or direct from Companies House, UK.

### Division of responsibilities

The roles of the Chairman and Chief Executive Officer are clearly defined and the division of responsibilities is established and set out in writing.

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

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

### Commitment

The Chairman and the non-executive directors should have sufficient time to fulfil their duties and directors' other commitments are kept under review to ensure that they have sufficient time to dedicate to our business.

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 their executive responsibilities

adversely. The executive directors currently do not hold any external directorships. A non-executive director should not hold more than four other material non-executive directorships. If they hold an executive role in a FTSE 350 company, they should not hold more than two other material non-executive directorships.

In November Richard Moat took on the role of Chief Executive Officer at Technicolor plc. The Board considered and approved him taking on this appointment and was confident that he would be able to continue to devote the appropriate time to his role as senior independent director and Chairman of the Audit and Risk Committee. The external commitments of the Chairman and the other non-executive directors have also been reviewed and the Board is satisfied that these do not conflict with their required commitment to the Company.

The independent non-executive directors are appointed for an initial period of three years, subject to annual re-election by shareholders at the AGM. The initial period may be extended, following recommendation by the Nomination Committee, for two further three year periods. The Board will not normally extend the aggregate period of service of any independent non-executive director beyond nine years. Their letters of appointment may be inspected at our registered office and copies are available from the company secretary.

Each of the non-executive directors has been formally determined by the Board to be independent for the purposes of the Code. Richard Moat was appointed as the senior independent director at the conclusion of the 2019 AGM. He will be available to shareholders should they have concerns which contact through the normal channels of Chairman, Chief Executive Officer and Chief Financial Officer has failed to address or for which such contact is inappropriate. The senior independent director will review the performance of the Chairman on an annual basis and will consult with other Board members as part of the review. He will also consider the relationship between the Chairman and the Chief Executive Officer.

The external commitments of the Chairman and the other non-executive directors have also been reviewed and the Board is satisfied that these do not conflict with their required commitment to the Company.

### Development

Our policy is to provide appropriate training to directors. Training takes into account each individual's qualifications and experience and includes environmental, social and governance training as appropriate. Training needs are reviewed annually as part of the Board evaluation process. Training also covers generic and specific business topics and in 2019 included presentations to the Board on subjects including IFRS 9 and the operations of the Serious Fraud Office. The Board also visited the home credit business in Hungary and received presentations from the management team in this market, and presentation updates were received from other market leaders during other scheduled Board meetings. Individual directors visited a number of markets and businesses during the year.

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

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

### Evaluation

In 2019, an externally facilitated evaluation of the performance of the Board and its committees was carried out by EquityCommunications Limited. Directors completed a questionnaire, the results of which were collated, reviewed and presented for discussion at the December 2019 Board meeting. Details of the principal outcomes relating to the Board evaluation can be found on page 64.

## Election or re-election of directors

All directors are subject to election or re-election at the AGM, in accordance with the Code. All directors, except for Dan O'Connor, will seek election or re-election at our AGM on 30 April 2020. Details of the directors can be found on pages 56 to 57.

## Shares in issue

As at 31 December 2019, the issued share capital was 234,244,437 ordinary shares of 10 pence each. No ordinary shares were issued during the year. No shares were purchased by the Company, transferred to treasury or cancelled. The ordinary shares can be held in certificated or uncertificated form.

10,562,605 shares are held as treasury shares for the purpose of satisfying options under the Group's share option plans. Details of share capital are shown in note 26 to the Financial Statements.

## Share class rights

The share class rights, which are set out in the Company's Articles, are summarised as follows. The ordinary shares are listed on the London Stock Exchange and Warsaw Stock Exchange.

### Restrictions on shareholders' rights

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

### Restrictions on transfer of shares and limitations on holdings

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

## Voting rights

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

## Variation of rights

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

## Authority to purchase own shares

At the 2019 AGM, we received shareholder authority to buy back up to 22,365,526 of the Company's shares until the earlier of the conclusion of the 2020 AGM or 30 June 2020. Any ordinary shares purchased could be cancelled or held in treasury. This authority was not exercised in 2019. A further authority to purchase our own shares will be sought at the 2020 AGM.

## Interest in voting rights

As at 31 December 2019, we had been notified, pursuant to DTR 5.1.2, of the following interests in voting rights in our issued share capital. The information provided below was correct at the date of notification, however, the date of receipt may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. A notification of any change is not required until the next notifiable threshold is crossed.

Name	Date notified	% of issued share capital <sup>1</sup>
Standard Life Aberdeen plc	03/07/2019	12.74
Aberforth Partners LLP	30/07/2019	10.07
Marathon Asset Management LLP	28/10/2019	10.05
FIL Limited	04/07/2016	6.31
FMR LLC	10/01/2018	5.28
Schroders plc	17/03/2014	5.01
Old Mutual Asset Managers (UK) Ltd	12/04/2010	4.88
BlackRock, Inc.	16/07/2009	4.54
Norges Bank	26/08/2019	4.36
Investec Asset Management Ltd	03/08/2009	3.50
Oppenheimer Funds Inc/Baring Asset Management Ltd	26/06/2009	3.02
BNP Paribas Investment Partners	08/07/2015	3.02

As at 26 February 2020, the following shareholder had notified an interest in our issued share capital in accordance with the DTR:

Name	Date notified	% of issued share capital <sup>1</sup>
Standard Life Aberdeen plc	04/02/2020	11.93

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

### Authority to issue shares

At the 2019 AGM, an ordinary resolution was passed authorising the directors to issue new shares up to an aggregate nominal amount of £7,445,175, representing approximately one-third of the issued share capital of the Company (excluding treasury shares) and allot further new shares in the case of a rights issue only up to an aggregate nominal amount of £7,455,175, representing approximately a further one third of the issued share capital. Further special resolutions were passed to effect a disapplication of pre-emption rights in certain circumstances.

Resolutions to renew these authorities will be proposed at the 2020 AGM. Further details can be found in the separate notice of meeting.

### Directors

Details of the current directors can be found on pages 56 to 57. Tony Hales, who was a non-executive director, did not seek re-election at the 2019 AGM and stepped down from the Board.

### Indemnities

Our Articles permit us to indemnify our directors (or those of any associated company) in accordance with the Act. However, no qualifying indemnity provisions were in force in 2019 or at any time up to 26 February 2020. We have appropriate directors' and officers' liability insurance and this was in force when the Directors' Report was approved.

### Directors' conflicts of interest

To take account of the Act, the directors adopted a policy on conflicts of interest and established a register of conflicts. The directors consider that these procedures have operated effectively in 2019 and up to 26 February 2020.

### Powers and proceedings of directors

The directors are responsible for the management of the Company and may exercise all the powers of the Company, subject to the provisions of the relevant statutes and the Articles. The Articles contain specific provisions and restrictions regarding the following: the Company's powers to borrow money; provisions relating to the appointment of directors (subject to subsequent shareholder approval); and delegation of powers to a director or committees. They also provide that, subject to certain exceptions, a director shall not vote on or be counted in a quorum in relation to any resolution of the Board in respect of any contract in which they have an interest which they know is material.

### Agreements on change of control

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

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

- our bank facility agreements, which provide for a negotiation period following a change of control and the ability of a lender to cancel its commitment and for outstanding amounts to become due and payable;
- our Euro Medium Term Note<sup>1</sup> 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<sup>2</sup> programme, which entitles any

holder of a note to require the issuer to redeem such holder's notes if there is a change of control and, following such change of control, the Euro Medium Term Notes are then downgraded (or if no such notes are then outstanding, in certain other circumstances); and

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

### Related party transactions

Related party transactions are set out in note 30 to the Financial Statements.

### Financial instruments

Details of the Group's financial instruments are set out in note 21 to the Financial Statements.

### Dividends

A final dividend of 7.8 pence per share has been proposed bringing the full year dividend to 12.4 pence per share. The final dividend will be payable on 11 May 2020 to shareholders on the register of members on 14 April 2020.

### Employees

#### Employee engagement and communication

We want an informed and engaged workforce who understand the Company's purpose and mission, and how their work contributes to the delivery of our business goals. We have a proactive approach to employee communication which is at the heart of our commitment to

1. The Euro Medium Term Note programme was established in 2010. The following notes (listed on the London or Nasdaq Stockholm stock exchanges) have been issued under the programme and are outstanding as at the date of this report; sterling 44.1 million with a seven-year term and a 6.125% coupon; euro 294.1 million with a seven-year term and a 5.75% coupon; euro 100 million 'tap' of our existing Eurobond with a six-year term and a 5.75% coupon; euro 12 million 'tap' of our existing with a three-and-a-half year term and a 5.75% coupon; SEK450 million Swedish krona bond with a four-year term and a coupon of three-month STIBOR plus a margin of 8.75% and a GBP 78.1 million with a four-and-a-half year term and a coupon of 7.75%.
2. Under the Polish Medium Term Note programme, a subsidiary company, IPF Investments Polska Sp. z o.o., issued 200 million Polish zloty notes which are listed on the Warsaw Stock Exchange; they mature on 3 June 2020 and the coupon is a floating rate of six-month WIBOR plus a margin of 425 basis points.



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

We increasingly use technology to create international networks and to manage virtual teams. We encourage

active participation in the sharing of experiences and the creation of in-house online news bulletins. In 2019, we undertook a Global People Survey to measure employee and agent engagement as well as identify areas for improvement. During her first year as workforce and stakeholder engagement director, Bronwyn Syiek participated in a detailed programme of activities which has facilitated engagement with a wide range of employees and other stakeholders.

For more information on stakeholder engagement please see page 30 to 37 and pages 65 to 66.

### Employee benefit trust

We operate an employee benefit trust with an independent trustee, Apex Financial Services (Trust Company) Limited, to hold shares on behalf of employees pending entitlement to them under our equity share incentive plans. In 2019, the trust acquired 1,718,000 shares via market purchase and, as at 31 December 2019, the trustees held 1,661,478 shares in International Personal Finance plc. The trust waives its dividend entitlement and abstains from voting at general meetings. Any shares to be acquired through our share plans do not have special rights and rank pari passu with the shares already in issue.

### Employee equity incentive plans

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

Awards granted to the executive directors in 2019 are set out in the Directors' Remuneration report on page 100 to 101.

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

Details of outstanding awards are included in note 25 to the Financial Statements.

### Employment policies

#### Equal opportunities

The Group is an equal opportunities employer. It is our policy that no job applicant, employee or agent will receive less favourable treatment because of race, colour, nationality, ethnic or other national origin, gender, sexual orientation, marital status, age, disability or religion. The aim of this policy is to ensure that recruitment and progression opportunities are open to all and are based purely on merit, with all employees having the same access to training and career development. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular

aptitudes and abilities. If an employee becomes disabled, every effort is made by the Group to ensure their employment with the Group continues and appropriate training and reasonable adjustments are arranged where necessary.

#### Human rights, diversity and modern slavery

Information relating to diversity and gender, human rights, and Board diversity is shown on pages 34 to 35 and 75. Our Modern Slavery Act 2015 statement is available on our website at [www.ipfin.co.uk](http://www.ipfin.co.uk).

#### Anti-bribery policy

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

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

All employees must complete anti-bribery and corruption training. In 2019, the anti-bribery policy was reviewed and reissued.



## External oversight

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

### European home credit

Czech Republic – licenced by Czech National Bank

Hungary – subject to an operating licence issued by the Hungarian National Bank

Poland – registered in special registry of the Komisja Nadzoru Finansowego (the Polish Financial Supervision Authority)

Romania – under the supervision of the National Bank of Romania in the Special Registry of credit providers

### IPF Digital

Australia – holds a credit licence issued by the Australia Securities and Investment Commission

Estonia – licence issued by the Estonian Financial Supervision Authority

Finland – in a register of credit providers maintained by the Regional State Administrative Agency of South Finland

Latvia – operates under a licence from the Consumer Rights Protection Centre

Lithuania – in a register of credit providers maintained by the Bank of Lithuania

Poland – registered in the special register of the Komisja Nadzoru Finansowego (the Polish Financial Supervision Authority).

## Budgetary process and financial reporting

The Board approves a detailed budget each year 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 business. When the submissions have been aggregated and consolidation adjustments made to remove intercompany transactions, the consolidated result is reviewed by the Group Financial Controller and the CFO. 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 Financial Controller and the CFO. 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 CFO and they are signed by the CEO and the CFO. For further details on our risk and internal control processes, see pages 44 to 52.

## Report on environmental, social and governance (ESG) matters

The Board takes regular account of the significance of ESG matters to the Group and has identified and assessed the significance of ESG risks to the Group's short and long-term value as part of the risk management process. It recognises that a proactive programme of reputation management through a range of progressive, responsible business initiatives contributes to the sustainable long-term value of the Group. ESG issues are handled through a number of forums and reporting processes across the business which include the Risk Advisory Group, the senior management group and monthly performance updates. Key ESG issues that have an impact on our

stakeholders include: business ethics; public perception and ensuring that work with communities is relevant; social and financial inclusion; health and safety; and attracting and retaining skilled and well-motivated people.

Corporate affairs activity, health and safety, people management, responsible lending and business ethics issues were all discussed at Board meetings in 2019. The Board has received adequate information to make an assessment against ESG risks. There is a range of appropriate corporate standards, policies and governance structures covering all operations. The Group's policy regarding equal opportunities is on page 71.

The health and safety of our employees, agents and other people who may be affected by our activities is paramount to us. Our Group-wide safety management system is compliant with OHSAS 18001 to ensure all employees and self-employed agents are provided with the highest standards of safety supervision, training, education and advice. During 2019, all our European home credit businesses worked towards ISO 45001, a new Occupational Health and Safety Management Standard that replaced OHSAS 18001. The process was completed successfully in January 2020 with a plan for the Mexico home credit business to be accredited ISO 45001 during 2020. We operate help lines and 'Speak Up' services, available to all employees and agents, to ensure that they have access to appropriate advice and support for their safety and wellbeing and can raise concerns directly with senior management. Each subsidiary board is responsible for the implementation of its own health and safety policy and a six-monthly Group health and safety update is presented at Group Board meetings.

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

In 2019, 46% of our community investment focused on education and 28% on social welfare. Employees volunteered 18,205 hours in Company time (2018: 5,611) and a further 11,534 hours in their own time. Employees also raised a further £49,000 for community investment purposes. In total, we invested £953,000 (2018: £729,000) in supporting local communities in 2019.

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

The Remuneration committee takes account of ESG risks that could inadvertently cause unethical business practices, when setting short and long-term incentives and when setting performance targets in relation to remuneration packages. Details of our incentive arrangements are set out in the Directors' Remuneration Report on page 84 to 106. ESG matters are also taken into account when providing training for directors.

### Managing our emissions

Climate change is one of the greatest challenges facing the world today. We recognise that climate change has an impact on our business, our customers and our communities and as such we are taking action to reduce our environmental footprint including carbon emissions. Our direct operations have an impact on the climate through car travel and building emissions. We seek to minimise these impacts where possible

by regularly reviewing our car fleet and adopting new technologies to improve IT energy efficiency. In 2019 all our European home credit businesses successfully completed the migration to e-receipting resulting in a saving of around 148 tonnes of paper. We started retrofitting LED lighting in our Mexico branch network and digitising paper-intensive processes such as field risk assessments and route logging in the Czech Republic. We encourage our employees to minimise energy, water and paper use and offer guidance to our colleagues who drive cars to conduct their work to adopt fuel-efficient driving techniques. We also donated office furniture, laptops, screens, printers and mobile phones to our community partners, diverting these from landfill while putting them to good use.

A full environmental policy statement can be found in the Sustainability section of our website at [www.ipfin.co.uk](http://www.ipfin.co.uk).

### Greenhouse gas (GHG) reporting

We have reported on the most material carbon emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. We have applied the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard to calculate our emissions data and have used emissions factors from the UK government's GHG conversion factors<sup>1</sup> and the current edition of the IEA

emission factors for non-UK electricity. The emissions data covers all our offices. These sources fall within our Consolidated Financial Statements. Where available data is incomplete, we have extrapolated data.

This year, our GHG emissions for scope 1 and 2 decreased by 1.9%. We attribute the impact on the carbon footprint of our operations in 2019 primarily to the ongoing replacement of diesel-powered vehicles with petrol and hybrid cars, and office consolidation in some European home credit markets.

Our carbon emissions report has been reviewed by Be Sustainable Limited. We aim to further improve our environmental data collection and management system by considering recommendations from this review.

Carbon emissions sources	Travel and utilities	Tonnes CO <sub>2</sub> e		
		2018 <sup>2</sup>	2019	Difference
Scope 1	Gas	1,243	927	(25.4)%
	Business travel by car	24,515	24,273	(1.0)%
Scope 2	Purchased electricity and district heating	3,244	3,236	(0.2)%
Scope 1 & 2		29,002	28,437	(1.9)%
	CO <sub>2</sub> e emissions by customer	0.013	0.013	1.5%

#### Note:

Scope 1 carbon emissions do not include leakage from air conditioning systems as it is difficult to collect this data for all the offices we lease. Scope 2 carbon emissions have been calculated using location-based methodology. IEA electricity emission factors have been used for non-UK countries for more precise accounting. Note that the IEA electricity factors are for CO<sub>2</sub> and not CO<sub>2</sub> equivalent (CO<sub>2</sub>e). Scope 2 carbon emissions have not been calculated using market-based methodology because our offices are often part of larger managed premises, with energy costs included as part of the overall rent. Therefore, accurate gathering of specific energy supply data for our offices is not possible.

1. <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2019>

2. Restated 2018 emissions data to improve the accuracy of reporting, using actual data to replace estimates

# Nomination Committee Report



**“The Nomination Committee continued its work in evaluating the skills, experience and composition of the Board.”**

**Dan O'Connor**  
Committee Chairman

## Committee members

**Dan O'Connor**  
Chairman

**Deborah Davis**  
Independent non-executive director

**John Mangelaars**  
Independent non-executive director

**Cathryn Riley**  
Independent non-executive director

**Gerard Ryan**  
Executive director and Chief Executive Officer

The table below shows the number of meetings held and the directors' attendance during 2019

Committee member	Scheduled meetings <sup>1</sup>	No. of meetings attended	% of meetings attended
Dan O'Connor	4	4	100%
Gerard Ryan	4	4	100%
Deborah Davis	4	4	100%
Tony Hales <sup>2</sup>	2	1	50%
John Managelaars	4	4	100%
Cathryn Riley	4	4	100%

Notes

- The scheduled meetings that each individual was entitled to and had the opportunity to attend.
- Tony Hales stepped down as a director from the Board at the 2019 AGM. He was unable to attend the February meeting due to a prior commitment.

## Dear Shareholder,

During the year the Nomination Committee continued to lead succession planning for independent directors and executive management, as well as considering Board structure and Board effectiveness. Following their appointments to the Board in 2018, a comprehensive programme of induction for Bronwyn Syiek and Deborah Davis continued into the year.

## Role of the Committee

The key role of the Nomination Committee is to ensure that the Board has the appropriate balance of skills, knowledge and experience to operate effectively and deliver the Group's strategy. The Committee, with the Board, ensures that plans are in place for orderly succession to both the Board and senior management positions, and oversee the development of a diverse pipeline for succession by considering assessment profiles for each member of the senior management group. Succession planning is discussed regularly and the Committee, with the Board, considers the quality and development of talent and capabilities of the senior management group ensuring that appropriate opportunities are in place for high-performing individuals and promoting diversity in senior roles across the Group. As an international business our senior management group is intrinsically diverse comprising individuals from a wide range of countries, cultures, perspectives and backgrounds.

A summary of the length of tenure of the directors together with a summary of their skills and experience can be found on page 59. The Committee is confident that the Board has the necessary mix of skills and experience to contribute to the Company's strategic objectives.

## Board changes

Stuart Sinclair and Richard Holmes will be appointed as independent non-executive directors with effect from March 2020. Stuart will, subject to his election at the AGM, succeed Dan O'Connor as Chairman who intends to stand down as a director of the Company at the close of the AGM. Stuart, who is an experienced non-executive director, committee chair and senior independent director, will also join the Remuneration and Nomination Committees. Richard Holmes, who has more than 40 years of broad international financial services experience, will join the Audit and Risk Committee.

Tony Hales, senior independent director, stepped down following the AGM and Richard Moat was appointed to this position.

## Board appointments and diversity

In keeping with the practices of the Group, the Board through the Nomination Committee, values diversity in all its forms and as such strives to recruit directors from different backgrounds, with diverse experience, perspectives, personalities, skills and knowledge. We believe that this approach best equips the Board in developing the Group's strategy and overseeing its execution. Our Board diversity policy enshrines this commitment and will continue to guide future appointments. We will continue to aim to ensure that candidates are considered from a wide pool including those with little or no listed company board experience; non-executive directors' long-lists include 50% women candidates; we only engage with executive director search firms which have signed up for

the voluntary code of conduct on gender diversity; and that the Board comprises at least two female directors. The Nomination Committee and the Group is committed to increasing diversity across all its businesses and supporting the development and promotion of talented individuals, regardless of gender, nationality or ethnic background. As a matter of practice, whenever the Group engages a retained recruitment partner, we stipulate that we require a gender balanced long-list of candidates. As reported, we appointed two additional female non-executive directors in 2018. In addition to strengthening the skill set of the Board, their appointment has also improved the Board's gender diversity and we now exceed the Hampton Alexander target for gender diversity at Board level.

## Board evaluation

The Committee is also responsible for evaluating the directors' performance on an annual basis, and in accordance with the Corporate Governance Code, the annual evaluation is facilitated by an independent third party at least once every three years. This year the performance of the Board and committees was assessed by EquityCommunications Limited and I am pleased to report that the review concluded that the Board and its committees operated well. Further details of this year's review can be found on page 64.

## Annual re-election of directors

As required by the Corporate Governance Code, all directors will be subject to election or re-election at the next AGM. All non-executive directors

are considered independent in accordance with UK requirements, and they continue to make effective contributions, constructively challenge management and devote sufficient time to their role. Accordingly all directors are proposed for election or re-election. This is with the exception of Dan O'Connor who will step down from the Board and will not be seeking re-election at the AGM. Further details are contained in the Notice of Meeting circulated to shareholders.

## Responsibilities of the Committee

The Committee has specific responsibilities on behalf of the Board and these are detailed below:

- to regularly review the structure, size, and composition of the Board to maintain the balance of skills, knowledge, independence, experience and diversity, and to make recommendations to the Board in respect of any changes;
- to consider succession planning for the Board and other senior executives and to determine the skills and experience required for future appointments;
- to identify and nominate, for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- to evaluate the balance of skills, knowledge, experience and diversity required prior to making an appointment to the Board; and
- to keep the leadership needs of the Company under review, for both executive and non-executive directors.

The Committee's terms of reference are on the Company's website at [www.ipfin.co.uk](http://www.ipfin.co.uk)

### Key achievements in 2019

- The appointment of the Company's new senior independent director
- Board succession planning and identifying potential new candidates to strengthen Board capability
- The re-election of the directors at the 2019 Annual General Meeting

### Key objectives for 2020

- To continue to embed the changes needed to ensure full compliance with the Code
- To continue to focus on succession planning across the Group, including senior management and Board appointments, to strengthen the diverse talent pipeline and identify recruitment needs
- Comprehensive induction plans for newly appointed non-executive directors and effective onboarding of the new Chairman

# Audit and Risk Committee Report



**"The Committee has supported the Board and played a key oversight role on a number of significant matters, relating to financial reporting, internal control and risk management."**

**Richard Moat**  
Committee Chairman

## Committee members

### Richard Moat

Chairman and senior independent non-executive director

### Bronwyn Syiek

Independent non-executive director

### Deborah Davis

Independent non-executive director

**For insights into our risk management process see pages 44 to 46**

The table below shows the number of meetings held and the directors' attendance during 2019

Committee member	Scheduled meetings <sup>1</sup>	No. of meetings attended	% of meetings attended
Deborah Davis <sup>2</sup>	4	4	100%
Tony Hales <sup>3</sup>	2	1	50%
Richard Moat	6	6	100%
Bronwyn Syiek	6	6	100%

#### Notes

1. The scheduled meetings that each individual was entitled to and had the opportunity to attend.
2. Deborah Davis was appointed as a member of the Audit and Risk Committee on 21 February 2019.
3. Tony Hales stepped down as a director from the Board at the 2019 AGM. He was unable to attend the February meeting due to a prior commitment.

## Dear Shareholder,

On behalf of the Board, I am pleased to present the Audit and Risk Committee's report for the year ended 31 December 2019.

### The year in review

This section of the Annual Report sets out how the Committee has addressed both routine and emerging topics during the year. Throughout 2019 we closely monitored the management of regulatory matters, including how the Group anticipates and engages with regulatory developments, adapts its activities to such developments when they are implemented, and achieves ongoing compliance. In addition, the Committee focused on Brexit contingency planning, cyber threat and information security, safety, whistleblowing technology and operations, and the embedding of IFRS 9, particularly its impact on the calculation of receivables. After a number of years of monitoring developments on the Polish tax audit, the Committee is pleased to note the settlement for the years 2010 to 2017 inclusive. The Committee also paid close attention to the changes made to our operational governance structures across the business, the progress made in improving the risk management process and overseeing the continued development of assurance activities over IPF Digital, as the digital business continues its growth journey. Time was also dedicated to considering and then approving the plan for the 2019 external audit.



## Role and composition

The Committee consists of independent non-executive directors and met six times during the year. Members and their attendance at meetings can be found on the page 76.

Tony Hales stepped down from the Board and the Committee at the conclusion of the 2019 AGM. Deborah Davis joined the Committee in February 2019. Richard Moat, the Chair, remained in the role and, additionally, was appointed senior independent director.

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

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

The Committee's responsibilities are outlined in its terms of reference which are available on our website. Its main responsibilities are to:

- monitor the Group's systems of internal control, including financial, operational and compliance controls and risk management systems, and to perform an annual review of their effectiveness;
- monitor the integrity of the Financial Statements of the Company and the formal announcements relating to the Company's financial performance, reviewing the significant financial reporting judgements contained in them;
- provide advice to the Board on whether the Annual Report and Financial Statements, taken as

a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy;

- make recommendations to the Board, for the Board to put to shareholders in general meeting, relating to the appointment, reappointment and removal of the external auditor and to approve its terms of appointment;
- review and monitor the objectivity and independence of the external auditor and the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- review and approve the internal audit programme for the year and monitor the effectiveness of the internal audit function in the delivery of its plan; and
- keep under review the work of the Risk Advisory Group, in particular the Group schedule of key and emerging risks, and consider the principal risks stated pages 46 to 52 facing the Group and their mitigation.

### Progress against 2019 key objectives

- Received assurance on the management of ongoing consumer credit regulatory and taxation issues through updates on these matters throughout the year.
- Continued to review how the Group anticipates developments, manages new regulation coming into effect and achieves ongoing compliance. Reviewed regulatory anticipation strategy and monitored the Group's response to, and preparations for, the potential introduction of rate cap regulations in Poland and Romania.
- Reviewed and challenged, where necessary, the effectiveness of an enhanced risk management reporting tool, which was implemented across the Group in the first half of the year, enabling the Committee to evaluate its output in June 2019 and in January 2020.
- Considered tax risks facing the Group by receiving regular updates on the development of these risks and specifically evaluated the relevant output from the Group's risk management process.
- Continued to monitor cyber security measures and operational resilience across the Group by reviewing and challenging an update of the Information Security Strategy and its execution.

### Key objectives for 2020

- Pay close attention to the management of risks posed by taxation, in particular the Polish tax audits for 2008 and 2009, the refinancing of the Eurobond, and future legal and regulatory developments.
- Keep under review the Group's internal control systems, including financial, operational and compliance controls, to ensure that they continue to manage risks to the achievement of performance and future prospects.
- Closely monitor the continuing development of the risk management process to ensure it continues to enable the identification, assessment and prioritisation of risks and with a particular focus on emerging risks across the Group.
- Receive assurance on the performance of the policies, procedures, processes and governance in place to manage the risk of our customers failing to meet their contractual obligations.
- Ensure that sufficient focus continues to be taken to protect the Group's IT infrastructure, applications and data, from the continuing threat to the business of cyber security risks.

## Activities in 2019

### Financial reporting

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

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

In carrying out this review, the Committee considered the work and recommendations of management. The Committee also continued to monitor how IFRS 9 has been embedded into business-as-usual reporting through review and challenging reports from 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 Committee also monitored the adoption of IFRS 16, which became effective 1 January 2019, in respect of how the Group accounts for leases.

The significant judgements considered by the Committee were:

- Impairment of receivables: the key areas of judgement in respect of impairment provisions made against amounts receivable from customers are the parameters used in the expected loss models, the expected timing of future cash flows and post-model overlays. The expected loss models are driven by historic data in respect of probability of default and exposure at default together with loss given default for each portfolio. At both the half-year and full-year results, the Committee considered a paper prepared by management summarising the work performed to update parameters used in the expected loss and the cash flow timing models. This paper also addressed the use of post-model overlays in instances where the most recent trends in the data

are felt to be more relevant than some of the more historic information. Further detail on the post-model overlays considered is given in the key sources of estimation uncertainty section of this Annual Report on page 126.

The external auditor performed audit procedures on impairment provisioning and reported its findings to the Committee. The Committee concluded that the receivables impairment provisioning in the Financial Statements was appropriate.

- Revenue recognition: the judgement in respect of revenue recognition is the methodology used to calculate the effective interest rate. The calculation takes into account all the contractual terms together with the extent and timing of customer early settlement behaviour. The external auditor performed procedures to assess management's calculations and assumptions used to calculate the effective interest rate and reported its findings to the Committee. The Committee concluded that revenue recognition in the Financial Statements was appropriate.
- IPF operates in multiple jurisdictions where the taxation treatment of transactions is not always certain. Management therefore is required to make judgements, based on internal expertise and external advice, on the methodology to be adopted for accounting for uncertain tax positions. Key areas of focus in 2019 were the settlement of the Polish tax audit for 2010 to 2012 financial years together with the basis of the judgements taken relating to accounting for the State Aid decision and payments made in respect of the Polish tax audits of the 2008 and 2009 financial years. The external auditor performed procedures to assess management's judgements and reported its findings to the committee. The Committee concluded that the provision for uncertain tax provisions included in the Financial Statements was appropriate.
- Regulation: the business is subject to regulatory scrutiny in multiple jurisdictions and at times it is appropriate to make provisions for potentially adverse rulings by regulatory authorities. The Committee received reports

from the Group legal function outlining the various regulatory and other similar issues and management's approach.

The Committee concluded that the provisions for potentially adverse rulings by regulatory authorities included in the Financial Statements were appropriate.

### Internal control and risk management

While the Board is responsible for overseeing the Group's systems of internal control, including risk management, the review of its effectiveness is delegated to the Committee. The Group recognises the importance of strong systems of internal control in the achievement of its strategy and objectives. It is also recognises that any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Committee reviews and approves the Group schedule of key risks, which describes the principal risks and uncertainties facing the business. The Board formally considers the schedule on a six-monthly basis and approves risk appetite annually. The Committee closely monitors and is supported in its work by the Risk Advisory Group, which in 2019 comprised the Chief Executive Officer, Chief Financial Officer and Chief Legal Officer, together with other members of the UK Executive and senior management. The Risk Advisory Group meets four times a year. It reports to the Audit and Risk Committee and considers the risk assessments and risk registers produced in each country and updates the Group schedule of key risks. It also considers areas of specific risk and particular issues.

The Committee focused on monitoring the continuing evolution of regulation in our territories and received, reviewed and challenged regular updates from management on these matters.

In December 2016 the Polish Ministry of Justice published a draft bill which, amongst other things, proposed a significant reduction in the cap of non-interest costs chargeable in consumer lending. The proposals were revised by the Ministry in 2019, subsequently adopted as Government proposals in mid-2019, and then further

revised by the Government. Having failed to proceed through the legislative process prior to Polish general elections in November 2019, the proposals are no longer on the current legislative agenda. The reintroduction of the proposals onto the legislative agenda, in the most recent or a further revised form, is a possibility. We continue to monitor the situation closely. Details are covered in the Operational Review on pages 24 to 29 and our Principal Risks and Uncertainties on page 46 to 52.

Additionally, the Committee continued to monitor the progress of the Polish tax audits for 2008 to 2012 together with developments in respect of the European Commission's State Aid challenge. The Board also received regular updates on associated issues relating to these issues. Details of the current status of the tax audits are also included in the Financial Review on pages 39 to 43 and our Principal risks and uncertainties on page 46 to 52.

The Committee has noted that the Group has continued its strategy of maintaining diversified sources of funding and extending the debt maturity profile. The settlement of the

Polish tax audit for 2010 to 2012, the improved credit rating position, and the high level of headroom on undrawn debt facilities, will allow more flexibility in the refinancing of the Eurobond, which the Group aims to complete by the end of 2020.

The Committee will continue to assess the impact of these matters on the business and will monitor management's response throughout 2020.

The internal control environments in place to manage the impact of each risk are monitored by the Committee on a regular basis, as are the principal actions being taken to mitigate them. The Committee requests additional presentations on key business areas as necessary to supplement its understanding of control environments in place. The areas covered by these in 2019 are referred to in the 'Training' section on page 81.

Through the Committee, the Group internal audit function provides independent assurance to the Board on the effectiveness of the systems of internal control. The Committee provides oversight and direction to the internal audit plan, which was

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

### Internal audit

Group Internal Audit is an independent assurance function within the Group providing services to the Committee and all levels of management. Its remit is to provide objective assurance over the design and operating effectiveness of the system of Internal control, through a risk-based approach. It also provides insight, delivers value, protects and helps the organisation to achieve its priorities. Group Internal Audit does this by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The function facilitates the Group's risk management processes with the committee and the Board.

## Internal audits performed in 2019

### Basic assurance

#### Branch-level reviews:

- Fraud risk management In field operations

#### Head office audits:

- Fraud risk management in markets' head offices
- Business contribution of marketing expenditure

#### Core controls to mitigate:

- Credit and collections risk
- Competition risk
- GDPR risk

### Thematic audits

#### Regulation and compliance:

- Insurance compliance
- Implementation of the Consumer Credit Compliance Framework
- Management of customer complaints

#### IT, data and systems:

- Cyber awareness
- IPF Digital cloud security management
- Mexico home credit business transfer to cloud on Amazon Web Services
- IT asset and licence management
- IPF Digital data storage and structures
- IT resilience and disaster recovery

#### Credit and collections:

- Post-field collections In the home credit business
- Credit scorecard development at IPF Digital

#### Strategy, Governance and Risk:

- Group IT governance
- Credit line product governance
- Change management risk governance

The Group Head of Internal Audit reports into the Chair of the Committee and, administratively to the Chief Financial Officer. The function is composed of teams across the markets and at the Group head office in the UK, and it has a high level of qualified personnel with a wide range of professional skills and experience. Co-sourcing agreements with the largest professional accountancy practices ensure access to additional specialist skills and an advanced knowledge base.

Group Internal Audit activities are based on a robust methodology and subject to ongoing internal quality assurance reviews to ensure compliance with the standards of the Institute of Internal Auditors. The function has invested in several initiatives to continuously improve its effectiveness including a third party quality assessment at the beginning of 2019, which concluded positively on the effectiveness of the function. Having also invested in the adoption of new technology, data analytics in particular will provide deeper audit testing and will drive increased insight for Group Internal Audit. The team follows a continuous improvement plan and measures its operational effectiveness via a set of key performance indicators which are reported to each meeting of the Committee and via individual post-audit quality assessments by auditees, the results of which are also reported to the Committee.

The Committee has a permanent agenda item to cover internal audit related topics. Prior to the start of each financial year the Committee reviews and approves the annual audit plan, assesses the adequacy of the resources and reviews the operational initiatives for the continuous improvement of the function's effectiveness.

The Committee reviews progress against the approved audit plan and the results of audit activities, with a focus on unsatisfactory audit results which require attention.

During the year Group Internal Audit focused on the principal risks which include regulatory compliance, credit risk, cyber threat and information security, data privacy, technology resilience and digital and technological transformations. Assurance was also provided across a range of other areas. Details can be found on page 79.

The Committee is satisfied that the quality, experience and expertise of the function are appropriate for the business.

#### External auditor effectiveness and independence

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

In line with its established practice, 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;
- provision of non-audit services as set out;
- robustness and perceptiveness of the external auditor in its handling of key accounting and audit judgements;
- the interaction between management and the external auditor;
- the delivery of its audit work in accordance with the agreed plan; and
- the quality of its report and communications to the Committee.

This year the effectiveness of the external audit process was also evaluated via a questionnaire which was completed by the Committee, and by business unit finance directors across the Group. The results of the evaluation were reviewed and considered by the Committee which concluded that the external audit process is effective.

In order to confirm its independence and objectivity, the external auditor issued a formal statement of independence to the committee. In addition, the Committee ensured compliance with the Group's policy on the use of the external auditor for non-audit services.

The key requirements of this policy are:

- the external auditor is prohibited from providing certain services which include: tax services; payroll services; designing and implementing internal controls or risk management procedures; legal services; internal audit services; human resource services; valuation services; or general management consultancy; and
- the Committee Chairman must approve any individual non-audit service over a specific fee level.

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

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

#### Non-audit services carried out by Deloitte LLP in 2019

	Fee £'000
Other non-audit services	14
Other assurance services	95
<b>Total</b>	<b>109</b>

### Audit tendering and auditor rotation

The Company's policy is to undertake a formal tendering exercise of the audit contract at least once every 10 years. Deloitte LLP has been the Group's auditor since 2011. Peter Birch is the lead audit partner and has been since May 2017. The Company will be required to retender the audit for the financial year ended 2021 and plans to complete a competitive tender process by this time. In addition, the Committee will continue to consider the auditor's performance on an annual basis. Having undertaken its review for 2019, the Committee is satisfied with the relationship with the auditor and, in particular, with its independence, objectivity and effectiveness. Therefore, at its February 2020 meeting, the Committee recommended to the Board that Deloitte LLP be reappointed as auditor at the 2020 AGM.

During the year ended 31 December 2019, and up to the date of this report, the Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit committee Responsibilities) Order 2014.

### Training

The Committee undertook a significant amount of training during 2019. This included presentations on the following key business areas:

- continued development of the information security framework;
- overview of the political and regulatory environments in our markets, regulatory trends and the potential of new legislation coming into effect;
- overview of the Group's new risk assessment tool
- taxation strategy, significant tax risks, and international taxation regulatory environment;
- compliance framework development;
- corporate governance reforms including Audit and Risk Committee focus areas and best practices; and
- calculation and oversight of revenue and impairment under IFRS 9 in the business-as-usual environment.

This training was complemented by a visit to the Group's business in Hungary, which included discussions with the home credit management team.

### Committee effectiveness

The Committee's performance was reviewed as part of the external Board evaluation review as discussed on page 64. Feedback on the frequency of meetings, volume of business handled, the conduct of meetings and the provision of training and access to external advice was positive. The Committee is considered to function well, with structured meetings and good engagement and challenge provided across its remit by all its members. It continues to be regarded as thorough and effective, and to provide the Board with a high level of assurance that audit matters are dealt with appropriately.

### Review of the effectiveness of the systems of internal control

On behalf of the Board, the Committee has monitored the Group's systems of internal control and its processes for managing principal and emerging risks throughout 2019, and performed an assessment of their effectiveness. In addition, the Committee, where appropriate, ensures that necessary actions have been or are being taken to remedy identified failings or weaknesses in the internal controls framework. These processes were in place throughout 2019 and up to 26 February 2020.

### 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 2019, 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.

The Committee's responsibilities are outlined in its terms of reference which are available on our website at [www.ipfin.co.uk](http://www.ipfin.co.uk).



# Technology Committee Report



**"The Technology Committee supports the delivery of the business strategy through an aligned IT strategy."**

**John Mangelaars**  
Committee Chairman

## Committee members

**John Mangelaars**  
Chairman

**Richard Moat**  
Senior independent non-executive director

**Cathryn Riley**  
Independent non-executive director

**Bronwyn Syiek**  
Independent non-executive director

The table below shows directors' attendance during 2019

Committee member	Scheduled meetings <sup>1</sup>	No. of meetings attended	% of meetings attended
John Mangelaars	4	4	100%
Richard Moat	4	4	100%
Cathryn Riley	4	4	100%
Bronwyn Syiek <sup>2</sup>	3	3	100%

Notes

1. The scheduled meetings that each individual was entitled to and had the opportunity to attend.
2. Bronwyn Syiek was appointed as a member of the Technology Committee on 20 February 2019.

## Dear shareholder,

This year the Committee continued to monitor the delivery of our IT strategy and supported the advancement of the Group's technology capabilities to better leverage infrastructure and improve cost efficiency. Continued development of our data analytics capability means that we are better able to understand our customers and to refine our product offerings and credit strategies to suit their needs and provide an enhanced customer experience. Bronwyn Syiek has settled in well as a member of the Committee bringing a diversity of experience and breadth of knowledge to discussions.

## Role of the committee

The Committee supports delivery of the business strategy through an aligned IT strategy, underpinned by solid commercial and governance frameworks, sound financial control and a secure and compliant estate. It also oversees the implementation of our IT strategy and monitors its progress.

The Committee consists of four independent non-executive directors and met four times during the year. The Chief Executive Officer, Chief Financial Officer and Group Technology Director are invited to attend all meetings. Periodically, senior management from across the Group are invited to present on relevant matters.

### Digitisation of home credit

The Committee continued to support the digital transformation of European home credit further enhancing the roll out of our agent mobile technology with e-receipting and sales functionality. The implementation of agent mobile technology was a major milestone not only in delivering cost benefits but environmental benefits too with the elimination of paper from our collections process.

The focus is now on completing the roll out of sales functionality whilst improving our home credit customer experience with enhanced website applications.

### Data strategy

The committee continued to support the use of advanced analytics through delivery of a key technology enabler, namely a cloud hosted data lake (a repository of unstructured data) and the development of new reporting tools ensuring that maximum benefit can be leveraged from data as an asset. The data lake enables the data scientist team to use predictive modelling techniques that can have a measurable impact on our businesses, for example, improved credit scoring models, and a new tool to support customer retention.

### IPF Digital

The continued focus on the automation of the customer journey and further improving customer service with market-leading technology has been supported by the Committee together with processes for the smarter use of data to power the business. During 2019, we launched our Mobile Wallet product with a 'test and learn' phase in Finland and expect to roll out into more countries during 2020 enhancing the customer experience and driving growth.

### Security and Governance

The Committee continued to support the GDPR programme with a number of changes implemented to ensure compliance.

### People and capabilities

During the year, the Committee continued to support the development of our IT personnel and delivery framework to progress an incremental approach to delivery and unlock our ability to better deliver faster outcomes.

### Focus for 2020

The Committee will continue to support the business in the development of advanced analytics through the data lake, improved use of cloud-based tools, continued modernisation of the home credit platforms, ongoing development of our digital capabilities, and the conclusion of our agent mobile technology in Europe, whilst supporting appropriate organisational transformation and relevant governance.

The committee's responsibilities are outlined in its terms of reference which are available on our website [www.ipfin.co.uk](http://www.ipfin.co.uk).

#### Key achievements in 2019

- Supported the technology programme by providing constructive challenge and guidance on the implementation of the IT strategy.
- Kept the Board apprised on the progress of the IT strategy delivery.
- Encouraged IT function's focus on delivering what the business needs.
- Supported the move for IT to be embedded as part of business teams with increased agile working.

#### Key objectives for 2020

- Ensure the continued alignment of the IT strategy with the business strategy to support growth and efficiencies.
- Support investment in IT transformation in line with the IT strategy.
- Leverage data capabilities to help unlock growth opportunities.
- Develop technology to drive efficiency through agent mobile technology to assist in robust credit decisions and support digital lending growth.

# Directors' Remuneration Report



**“Our Policy continues to focus on aligning pay with performance as fairly as possible.”**

**Cathryn Riley**  
Chair of the Remuneration Committee

## Committee members

### Cathryn Riley

Chair and independent non-executive director

### Richard Moat

Senior independent non-executive director

### Deborah Davis

Independent non-executive director

### Dan O'Connor

Chairman of the Board

The table below shows the number of meetings held and the directors' attendance during 2019.

Committee member	Scheduled meetings <sup>1</sup>	No. of meetings attended	% of meetings attended
Dan O'Connor	6	6	100%
Deborah Davis	6	6	100%
Tony Hales <sup>2</sup>	3	2	67%
Richard Moat	6	6	100%
Cathryn Riley	6	6	100%

1. The scheduled meetings that each individual was entitled to and had the opportunity to attend.
2. Tony Hales stepped down as a director from the Board at the 2019 AGM. he was unable to attend the February meeting due to a prior commitment.

## Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019. The Remuneration Report is split into two sections:

- our new Directors' Remuneration Policy (the 2020 Policy); and
- the Annual Remuneration Report, providing detail of amounts paid during the reporting year including incentive outcomes.

In addition to maintaining our focus on the effective implementation of the 2017 Policy in the context of business performance and long-term strategic objectives, the Committee also conducted a detailed review of the 2017 Policy and we present, on pages 88 to 96, our proposed new 2020 Directors' Remuneration Policy. The Committee believes that the current Policy has had a strong pay for performance relationship and its implementation has received consistently high levels of support from our shareholders. Further, most features of best practice have already been adopted. Consequently, following a full shareholder consultation exercise and review of market practice, the Committee is proposing a modest revision of Policy, as summarised below.

1. A reduction in the maximum company pension contribution rate for new hire executive directors from 15% of base salary to the most common company contribution rate for the wider workforce (currently 12%). The Committee is conscious of the Investment Association's position with regard to incumbent executive directors and has carefully considered this in the context of guidance issued by other agencies, notably ISS, shareholder feedback and the contractual position of the CEO and CFO. The Committee considers that the gap between the actual company contribution rates provided to the CEO and CFO (respectively 17.6% net and 13.7% net) is not significantly ahead of the wider workforce rate and is notably below the 25% threshold that would understandably give rise to significant shareholder concern. However, the Committee acknowledges the need to take action and intends to align executive director pension contribution rates with those of the wider workforce by the end of 2022, consistent with the Investment Association's position.
2. The re-balancing of, but no overall increase to, incentive opportunity such that from 2021, Performance Share Plan awards will reduce to 160% of base salary (currently 190%) and the annual bonus maximum will be 130% of base salary (currently 100%).
3. Coupled with the change to maximum bonus, the target level will reduce from 65% to 50% of maximum bonus opportunity.
4. A post-cessation shareholding policy will be introduced at the level of 1x current shareholding requirement (200% of base salary) or the number of shares actually held at leaving, whichever is the lower, for 2 years.

These changes are intended to align with best practice and corporate governance requirements.

The Committee has also resolved to publish targets attaching to PSP awards prospectively from 2020, reflecting shareholder feedback on the operation of the Policy; these can be found on page 106 of this report.

In concluding its review, the Committee was mindful of striking an appropriate balance between meeting corporate governance expectations and incentivising executives in challenging markets and circumstances.

On behalf of the Committee I would like to thank those shareholders who provided feedback on the direction of the proposed 2020 Policy during the consultation process.

Our remuneration principles were unchanged in 2019 and will be retained under the 2020 Policy: simplicity and transparency; alignment with business strategy; and a strong relationship to business performance.

## Overview

### Role and Composition

The Committee comprises three independent non-executive directors and the Chairman. Full biographical details of members can be found on pages 56 and 57. Tony Hales stepped down from the Committee at the conclusion of the 2019 AGM. The Committee met six times during the year. Attendance at meetings can be found on page 84.

The Committee's responsibilities include:

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

The Committee's terms of reference are available on our website at [www.ipfin.co.uk](http://www.ipfin.co.uk).

## 2019 focus and progress

The Committee's work focused on three areas in 2019:

1. Effective application of the 2017 Policy, achieved by way of:
  - salary, bonus and share awards for executive directors and senior management group set and approved in line with the 2017 Policy;
  - the above concluded with clear alignment to business performance; and
  - ongoing monitoring of the regulatory landscape to ensure continued compliance.
2. A thorough review of the Directors' Remuneration Policy, as summarised above and detailed on pages 88 to 96 resulting in a proposed 2020 Policy designed to support our strategic objectives and take account of shareholder feedback and evolving market practice.
3. A review of workforce remuneration and related policies in line with the Committee's extended remit under the Financial Reporting Council's updated UK Corporate Governance Code (July 2018) used in support of the Committee's determination of executive director and senior management reward outcomes.

## 2020 focus

- Obtain formal shareholder approval of the 2020 Policy at the 2020 AGM.
- Implement the 2020 Policy.
- Conduct a review of independent advisors and appoint/re-appoint an advisor to the Committee.
- Continue to monitor and respond to evolving market and best practice.

## Business context – 2019 performance

In 2019, we delivered good financial performance. Profit before tax increased by £4.7 million to £114.0 million as a result of strong operational and financial performance in our European home credit markets and IPF Digital's established markets. In Mexico, a more challenging performance resulted in a focus on improving operational performance to improve profitability and create a platform to recommence growth in 2020. IPF Digital also delivered its maiden profit of £3.2 million.

The operational and financial reviews for 2019 can be found on pages 24 to 29 and 39 to 43 respectively and include some of the key financial metrics that we used to incentivise executive directors to deliver our strategy. Performance headlines include:

- Group profit before tax of £114.0 million, an increase of £4.7 million;
- revenue less impairment of £645.6 million, an increase of £6.2 million due to a larger receivables balance and stable credit quality;
- credit issued growth of 8% in IPF Digital, and a maiden profit of £3.2 million;
- a 12% contraction in credit issued in Mexico home credit and reduced profit of £10.5 million; and
- EPS of 32.2 pence, as a result of the increase in profit, offset by the higher effective tax value.

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

## Key decisions during 2019

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

This is reflected in:

- no base pay increase in 2020 for our Chief Executive Officer, with salary remaining at £533,000;
- a 2020 base pay award of 5% to £320,250 for our Chief Financial Officer. This represents the final stage of a planned progression, communicated in the 2016 Directors' Remuneration Report and based on continuing high performance in the role coupled with an assessment of relevant market data and in the context of the salary (£320,000) paid to the previous incumbent;
- financial year 2019 bonus awards of 72.3% of maximum, see pages 97 to 100 reflecting performance against financial metrics and personal objectives of each executive director;
- 2019 Performance Share Plan (PSP) awards of 190% of salary, the Committee having carefully considered the shareholder experience since the 2019 PSP awards were made, including the share price decline in the summer of 2019 and its subsequent strong recovery; and
- legacy 2017 PSP awards that have vested at 33% reflecting good EPS performance over the period 2017-2019, see page 100.

The Committee did not exercise discretion during the year although it did duly debate and give serious consideration to a reduction in the 2020 PSP award level following the fall in share price immediately after the announcement in June by the Council of Ministers in Poland on non-interest costs. However, taking into account the recovery of the share price since, the robust financial performance in 2019 and having noted the significant shareholding of the CEO (including his commitment to further invest in shares during the year) the Committee decided to maintain the level of PSP

award for 2020. Also, in determining the bonus outcome stated above the Committee took into account the provision made for early settlement rebates in the Polish market as explained on page 127 and decided that it was appropriate to use an adjusted profit number. More detail on bonus determination is provided on pages 97 to 100.

## Taking into account wider workforce pay and conditions

In agreeing amendments to its terms of reference in 2018, the Committee undertook to review wider workforce remuneration and related policies and in making its remuneration decisions, the Committee has considered in particular:

- feedback from the workforce and stakeholder engagement director;
- outcomes of the Global People and Agent Surveys;
- the operation of incentive plans for employees and agents and their alignment with incentives for executive directors and the senior management group;
- rates of salary increase for employees; and
- core demographic data, including but not restricted to employee and agent turnover.

In conclusion, as Chair of the Committee I look forward to maintaining an ongoing dialogue with you, our shareholders, and to receiving your support for the 2020 Policy at the AGM.



# Remuneration at a glance

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

## Strategic priorities

### European home credit

- Deliver strong returns to invest in the Group
- Protect the business model
- Leverage the Provident brand for digital
- Stabilise customer numbers

### Mexico home credit

- Optimise existing expansion footprint
- Build micro-business loans channel
- Improve portfolio quality before retuning to growth mode
- Manage longer-established branches for returns

### IPF Digital

- Continue to provide great customer experience through innovation
- Build scale and leverage data
- Improve new market credit performance then reignite growth

## 2019 performance

	2019	Change
Profit before tax	£114.0m	+\$4.7m
Mexico credit issued growth	£(22.8)m	(12)%
IPF Digital average net receivables growth	£50.6m	+26%
Earnings per share	32.2p	(1.6)p
Revenue less impairment	£645.6m	+\$6.2m

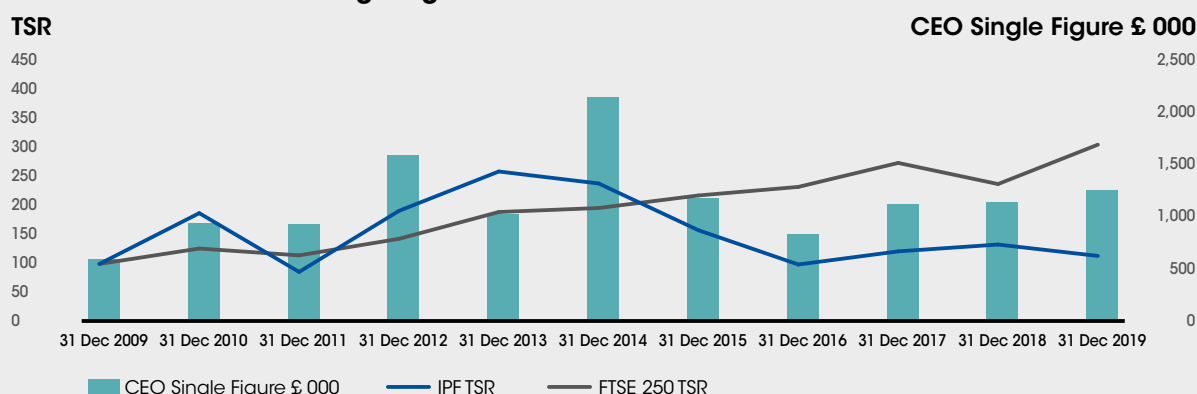
## Our remuneration outcomes

	2019
Base pay award for our CEO	0%
Base pay award for our CFO	5%
Bonus as % of maximum for CEO	72.3%
Bonus as % of maximum for CFO	72.3%
Performance Share Plan awards for CEO	190%
Performance Share Plan awards for CFO	190%
Legacy 2017 Performance Share Plan vested at	33%

## Our proposed 2020 Remuneration Policy at a glance

Our Remuneration Policy	Links to strategy	Key features																																																				
<table border="1"> <thead> <tr> <th></th> <th>2019</th> <th>2020</th> <th>2021</th> <th>2022</th> <th>2023</th> <th>2024</th> </tr> </thead> <tbody> <tr> <td>Salary, pension and benefits</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td rowspan="3">Annual bonus</td> <td></td> <td>Deferral of 50%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Malus on deferral</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Clawback on cash</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td rowspan="3">Long-term incentive plan</td> <td></td> <td>Vest period</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>2-year holding</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Clawback period</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		2019	2020	2021	2022	2023	2024	Salary, pension and benefits							Annual bonus		Deferral of 50%						Malus on deferral						Clawback on cash					Long-term incentive plan		Vest period						2-year holding						Clawback period					<p>To attract and retain talent capable of delivering the Group's strategy.</p> <p>To motivate and reward sustainable Group profit before tax and the achievement of specific personal objectives linked to the Company's strategy.</p> <p>To motivate and reward longer-term performance, and support shareholder alignment through incentivising absolute shareholder value creation.</p>	<p>Normally reviewed annually. Increases take into account salary reviews across the Group and increases paid to UK employees.</p> <p>On-target performance delivers 50% of maximum (previously 65%). Maximum opportunity 130% of base (previously 100%). 50% cash and 50% deferred for three years. Typically, 80% based on financial measures and 20% on personal objectives linked to strategy.</p> <p>In normal circumstances, award equivalent to 160% of base salary at time of grant (previously 190%). Three-year performance period with three weighted metrics. 25% vesting at threshold; straight line to maximum. Two-year post-vesting holding period. Two-year post-cessation shareholding requirement.</p>
	2019	2020	2021	2022	2023	2024																																																
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		Clawback period																																																				

## TSR Performance vs CEO Single Figure



## Directors' Remuneration Policy 2020

The Committee presents the 2020 Policy, which will be put to shareholders for a binding vote at the AGM to be held on 30 April 2020. The 2020 Policy will apply to awards granted from its approval at the AGM onwards. It is a provision of the 2020 Policy that the Company can honour all pre-existing incentive award obligations and commitments that were entered into before the 2020 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 2020 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 2020 Policy will be 30 April 2020. The intention of the Committee is that the 2020 Policy will remain in place for three years from the date of its approval.

## Policy changes table

The table below summarises the substantive changes to the 2017 Policy, which was explained in full on pages 74-80 of the 2016 Annual Report and Financial Statements (a copy of which can be found on our website [www.ipfin.co.uk](http://www.ipfin.co.uk)).

2017 Policy	2020 Policy Changes	Rationale
<b>Company pension contribution</b>		
<ul style="list-style-type: none"> <li>15% for new-hire executive directors</li> </ul>	<ul style="list-style-type: none"> <li>New-hire executive directors to be eligible for the most common contribution rate for the wider UK workforce (currently 12%)</li> </ul>	<ul style="list-style-type: none"> <li>Aligns with Corporate Governance Code requirements (2018)</li> <li>12% represents most common rate for UK employees</li> </ul>
<b>Performance Share Plan awards</b>		
<ul style="list-style-type: none"> <li>Policy 190% of base salary</li> <li>Exceptional 250% of base salary</li> </ul>	<ul style="list-style-type: none"> <li>Policy 160% of base salary</li> <li>Exceptional 250% of base salary</li> </ul>	<ul style="list-style-type: none"> <li>Responds to shareholder feedback and market norms in reducing on-target bonus potential to 50% of maximum and PSP Policy to 160%</li> <li>Offers greater incentive to achieve stretch targets</li> <li>Re-balancing of incentive opportunity intended to ensure that management remains appropriately focused on generating profitability and credit growth</li> </ul>
<b>Annual bonus maximum</b>		
<ul style="list-style-type: none"> <li>100% of base salary</li> </ul>	<ul style="list-style-type: none"> <li>130% of base salary</li> </ul>	<ul style="list-style-type: none"> <li>Driven principally by business performance requirements; also creates better market alignment with similarly sized companies in terms of balance between short and long-term opportunity levels</li> </ul>
<b>Annual bonus target level</b>		
<ul style="list-style-type: none"> <li>65% of maximum bonus opportunity</li> </ul>	<ul style="list-style-type: none"> <li>50% of maximum bonus opportunity</li> </ul>	
<b>Post-cessation shareholding policy</b>		
<ul style="list-style-type: none"> <li>No current policy</li> </ul>	<ul style="list-style-type: none"> <li>1x current shareholding requirement (200% of base salary) or the number of shares actually held at leaving, whichever is the lower, for two years</li> </ul>	<ul style="list-style-type: none"> <li>Aligns management with long-term interests of shareholders even after leaving and reflects Corporate Governance Code (2018) and Investment Association Principles of Remuneration (2019) requirements</li> </ul>

## Notes to the policy change table

- In considering executive director pensions, the Committee is conscious of the Investment Association's position with regard to incumbent executive directors and has carefully considered this in the context of guidance issued by other agencies, notably ISS, shareholder feedback and the contractual position of the CEO and CFO. The Committee considers that the gap between the actual company contribution rates provided to the CEO and CFO (respectively 17.6% net and 13.7% net) is not significantly ahead of the wider workforce rate and is notably below the 25% threshold that would understandably give rise to significant shareholder concern. However, the Committee acknowledges the need to take action and intends to align executive director pension contribution rates with those of the wider workforce by the end of 2022, consistent with the Investment Association's position.
- Bonus targets will remain weighted 80% on financial and 20% on personal performance, subject to the achievement of a profit before tax threshold. The requirement to defer 50% of any bonus earned into shares will also remain, ensuring that short-term incentive outcomes have an appropriate link to long-term value creation.
- PSP award conditions will continue to be: absolute TSR (50% weighting), cumulative EPS (25%) and growth in revenue less impairment (25%). The Committee recognises that absolute TSR is an uncommon, though not unprecedented, metric to use; however, identifying suitable comparator companies with a similar shareholder, industry and geographical profile to the Group remains a challenge. The Committee therefore continues to hold that absolute TSR is the most appropriate metric for assessing value creation and thereby aligning executive and shareholder interests.
- The Committee has resolved to publish targets attaching to PSP awards prospectively from 2020, reflecting shareholder feedback on the operation of the Policy. The targets for 2020 PSP awards can be found on page 106.

- Consideration has also been given to the operation of malus and clawback in respect of incentive plans, and the extent to which the Committee is able to exercise overarching discretion to ensure that rewards reflect underlying Group performance. The Committee has agreed that, while current triggers remain valid, an additional specified trigger should be added, namely the occurrence of a scenario or event resulting in material reputational damage or corporate failure affecting any member of the Group, where this can reasonably be ascribed, in the Committee's opinion, to the actions of a participant.

Other than as stated above, there are no further proposed changes to the Policy.

## 2020 Policy – executive directors

The remuneration of executive directors is determined by the Committee, considering Group and individual performance and competitive market practice, the pay and conditions of Group employees and the importance attached to the retention and attraction of high-calibre individuals. The total annual remuneration of executive directors comprises base salary, cash bonus and deferred bonus, shares granted under LTIP, pension provision and ancillary benefits.

Purpose and link to strategy	Operation	Maximum opportunity	Metrics, weightings and period
<p><b>Base salary</b></p> <p>To attract and retain talent capable of delivering the Group's strategy. Rewards executive directors for their performance in the role.</p>	<p>Base salary is paid in 12 equal monthly instalments during the year.</p> <p>Salaries are normally reviewed annually, and generally any changes are effective from 1 April.</p> <p>Salary levels are set considering role, experience, responsibility and performance, of both the individual and the Company, and also taking into account market conditions and the salaries for comparable roles in similar companies.</p>	<p>Salary increases take into account salary reviews across the Group and are usually in line with increases awarded to UK employees.</p> <p>By exception, higher awards may be made at the Committee's discretion to reflect individual circumstances. For example:</p> <ul style="list-style-type: none"> <li>• changes to role which increase scope and/or responsibility;</li> <li>• development and performance in the role; and</li> <li>• responding to competitive market pressures.</li> </ul> <p>There is no prescribed maximum increase.</p>	<p>None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries annually.</p>
<p><b>Pension</b></p> <p>To provide retirement funding.</p>	<p>The Company operates a stakeholder scheme; at the discretion of the Committee, this may be paid as a cash allowance.</p> <p>The Company has closed its defined benefit scheme to new members and future accrual.</p>	<p>Company contribution is set at the most common rate for the wider workforce, currently 12%, for new-hire executive directors.</p>	<p>None.</p>
<p><b>Benefits</b></p> <p>To provide market-competitive benefits that support the executive directors to undertake their role.</p>	<p>The Company pays the cost of providing the benefits on a monthly, annual or one-off basis.</p> <p>All benefits are non-pensionable.</p>	<p>The standard benefits package includes:</p> <ul style="list-style-type: none"> <li>• life assurance of 4x salary;</li> <li>• car allowance;</li> <li>• long-term disability cover;</li> <li>• private medical cover for executive director and immediate family;</li> <li>• annual medical; and</li> <li>• ability to participate in the IPF Save As You Earn Plan (SAYE) and any other all-employee share plans on the same terms as other employees.</li> </ul> <p>Additional benefits may also be provided in certain circumstances, and may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Committee.</p>	<p>None.</p>

Purpose and link to strategy	Operation	Maximum opportunity	Metrics, weightings and period
<p><b>Annual bonus</b></p> <p>To motivate and reward the generation of sustainable Group profit before tax and the achievement of specific personal objectives linked to the Company's strategy.</p>	<p>Measures and targets are set annually, and payout 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 payout should this not, in the view of the Committee, reflect overall business performance or individual contribution.</p> <p>50% of the total bonus amount is deferred for three years in Company shares through the Deferred Share Plan (DSP). The remaining 50% is paid in cash. Payments are made around three months after the end of the financial year to which they relate. There are provisions for clawback adjustments on the occurrence of certain events.</p>	<p>On target bonus: 50% of maximum (reduced from 65%).</p> <p>Maximum opportunity: 130% of base salary.</p>	<p>Performance is measured over the financial year and is assessed using the following criteria:</p> <ul style="list-style-type: none"> <li>typically 80% is based on achievement of financial and strategic measures; and</li> <li>typically 20% is based on achievement of personal objectives linked to achievement of Company strategy.</li> </ul> <p>Although each of the annual bonus metrics could pay out independently, the Committee will set a minimum threshold profit target before any other metrics are assessed.</p>
<p><b>Deferred Share Plan (DSP)</b></p> <p>To strengthen the link between short- and longer-term incentives and the creation of sustainable long-term value.</p>	<p>50% of the total bonus amount is subject to compulsory deferral for three years in Company shares without any matching.</p> <p>Following the vesting of awards, executive directors receive an amount (in cash or shares) in respect of the dividends paid or payable between the date of grant and the vesting of the award on the number of shares that have vested.</p> <p>The DSP has provision for malus and clawback adjustments on the occurrence of certain events.</p> <p>Awards may also be adjusted in the event of a variation of capital, in accordance with the plan rules.</p>	<p>50% of the total bonus amount received during the year.</p>	<p>None.</p>

Purpose and link to strategy	Operation	Maximum opportunity	Metrics, weightings and period
<p><b>Performance Share Plan (PSP)</b></p> <p>To motivate and reward longer-term performance, and support shareholder alignment through incentivising absolute shareholder value creation.</p>	<p>Annual grant of awards, made generally as nil-cost options over a specific number of shares subject to meeting specified performance targets.</p> <p>The Committee has discretion to decide whether, and to what extent, targets have been met, and if an event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them so long as the adjustment does not make them materially less difficult to satisfy.</p> <p>Awards may also be adjusted in the event of a variation of capital, in accordance with the plan rules.</p> <p>Executive directors will be required to hold any shares acquired on vesting (net of any shares that may need to be sold to cover taxes) for a two-year period starting on the date of vesting.</p> <p>The PSP has provisions for malus and clawback adjustments on the occurrence of certain events.</p>	<p>In normal circumstances, annual award levels for executive directors shall be equivalent to 160% of base salary at the time of grant (reduced from 190%).</p> <p>The rules of the PSP 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 Directors' Remuneration Report.</p> <p>Vesting of PSP awards is dependent on service and performance conditions.</p> <p>25% of the award vests at threshold performance in respect of the performance conditions, with straight-line vesting to maximum.</p>	<p>Service and performance conditions must be met over three-year periods.</p> <p>Performance is assessed against three independently measured metrics that are weighted as follows:</p> <ul style="list-style-type: none"> <li>• 1/2 absolute TSR performance;</li> <li>• 1/4 cumulative EPS growth; and</li> <li>• 1/4 growth in revenue less impairment.</li> </ul> <p>The Committee will compare the Company's absolute TSR performance with comparator groups considered appropriate at the point of vesting.</p> <p>The targets are set by the Committee, and will be set out in the annual Directors' Remuneration Report of the relevant year.</p> <p>A six-month averaging period is used for calculating TSR.</p>
<p><b>Shareholding requirement</b></p> <p>To support alignment with shareholder interests.</p>	<p>Executive directors are expected to acquire a beneficial shareholding over time.</p> <p>Shares which have vested unconditionally under the Company's share plans will be taken into account with effect from the date of vesting (but not before).</p> <p>50% of all share awards vesting under any of the Company's share incentive plans (net of exercise costs, income tax and social security contributions) must be retained until the shareholding requirement is met.</p>	<p>The current shareholding requirement for executive directors is 200% of base salary.</p>	<p>None.</p>
<p><b>Post-cessation shareholding</b></p> <p>To support alignment with shareholder interests.</p>	<p>Post-cessation shareholding policy is set at 1x the shareholding requirement or the number of shares actually held at leaving, whichever is lower, for two years.</p> <p>Requirement applies to any shares held, including shares acquired from the executive director's own funds, and any vested shares subject to a holding period.</p>	<p>Not applicable.</p>	<p>Two-year post-cessation holding period.</p>



## 2020 Policy - non-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, and to attract and retain high-calibre 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 last increased on 1 October 2013 for the Chairman and 1 January 2014 for non-executive directors. No increases in fees are proposed in 2020.

Element	Purpose	Operation
Fees	To attract and retain a high-calibre Chairman and non-executive directors by offering market-competitive fees.	<p>Fees are paid on a per annum basis and are not varied for the number of days worked.</p> <p>The level of the Chairman's fee is reviewed periodically by the Committee (in the absence of the Chairman) and the executive directors.</p> <p>As approved at the 2014 AGM, the maximum aggregate fee level for all non-executive directors allowed by the Company's Articles of Association is £650,000.</p> <p>The senior independent director and Chairs of the Board committees are paid an additional fee to reflect their extra responsibilities.</p> <p>Any non-executive director who performs services which, in the opinion of the Board, go beyond the ordinary duties of a director, may be paid such additional remuneration as the Board may authorise.</p> <p>Fees are paid on a quarterly basis.</p>
Shareholding requirement	To support shareholder alignment by encouraging 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.

When determining the 2020 Policy the Committee addressed the requirements of the UK Corporate Governance Code 2018, as follows:

Factor	How the Committee has responded
<b>Clarity</b>	Performance-based remuneration is intended to support the Company's strategy centres on providing a positive customer experience and generating strong returns in our European home credit businesses to reinvest in building a long-term sustainable future for these operations, growing Mexico home credit and IPF Digital, and delivering progressive returns to our shareholders. Performance measures are aligned to these goals.
<b>Simplicity</b>	Policy comprises fixed remuneration, annual bonus and a single LTIP only. Annual bonus and LTIP constructs are clearly and unambiguously aligned to the delivery of short- and long-term goals.
<b>Risk</b>	<p>The 2020 Policy includes risk mitigation in the form of:</p> <ul style="list-style-type: none"> <li>• clear limits on maximum awards, with no payment of annual bonus for performance below target;</li> <li>• requiring the deferral of 50% of annual bonus in shares, for three years;</li> <li>• aligning performance measures with Company strategy;</li> <li>• ensuring that the Committee can adjust payments through the exercise of discretion and the operation of malus and clawback to moderate formulaic outcomes which do not reflect the underlying performance of the Company; and</li> <li>• ensuring that post-vesting and post-cessation shareholding requirements apply.</li> </ul>
<b>Predictability</b>	Incentive maxima are clearly stated in the 2020 Policy and there is no annual bonus payment for performance below target performance. Checks and balances summarised in the Risk factor immediately above further support the predictability of outcomes.
<b>Proportionality</b>	The annual bonus plan is clearly structured to reward the successful delivery of strategy in-year, while PSP measures ensure reward proportionate to achievement of long-term goals and delivery of shareholder value.
<b>Alignment with culture</b>	The Committee considers executive director performance not only in terms of what is achieved, but also how it is achieved. As such, the Committee expects to see strong alignment between performance and the Company's core values of being responsible, respectful and straightforward. The Company's purpose is to make a difference in the lives of our customers by offering simple, personalised financial solutions in a fair and transparent way, and the 2020 Policy and associated performance measures and oversight are intended to support this goal.

## Notes to the 2020 Policy

### Determination, review and implementation

The 2020 Policy has been set following an extensive review, considering both the remuneration elements and overall balance necessary to support and recognise the delivery of Group strategy. Willis Towers Watson provided independent advice to the Committee in formulating the 2020 Policy and the Committee will continue to seek independent advice on key issues including, but not limited to, ongoing implementation of the 2020 Policy.

The Committee is at pains to ensure that no conflict of interest can arise in respect of its activities. Where necessary and appropriate, input is sought from executive directors, senior management group members and the Group Head of Reward. Attendance at meetings is by invitation and no individual is present when matters relating to their own remuneration are being determined.

The Committee considers all relevant factors when determining Policy outcomes, including but not limited to:

- in-year and long-term performance of the Group and individuals;
- trading conditions;
- Group strategy;
- alignment with the wider workforce; and
- remuneration trends, shareholder feedback and corporate governance frameworks.

### 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 typically set at a level that is both stretching and achievable, considering 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 annual business budget, historical performance, environment, social and governance (ESG) risks and incentive performance ranges at the Company's comparators, where disclosed.

The Board believes 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 most 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.

As part of the 2020 Policy review, the Committee determined to re-balance long- and short-term incentives, the rationale for which is explained on page 85.

### Malus and clawback

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

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

- the occurrence of a scenario or event resulting in material reputational damage or corporate failure affecting any member of the Group, where this can be reasonably ascribed, in the Committee's opinion, to the actions of a participant; 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 (for example: rights issues, corporate restructuring events and dividend equivalents); and
- the annual review of performance measures and weighting, and targets for the PSP from year to year.

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

- the participants;
- the timing of grant of an award/payment;
- the determination of the bonus payment;
- dealing with a change of control or restructuring of the Group;

- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen; and
- the annual review of performance measures and weighting, and targets for the annual bonus plan from year to year.

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

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

### Illustrations of total remuneration opportunity

The charts below provide an illustration of the proportion of total remuneration made up by each component of the proposed 2020 Policy, together with the value of each. Benefits are calculated as per the single figure of remuneration and three scenarios have been illustrated: 'Fixed', 'On-target' and 'Maximum'.

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

- fixed: fixed remuneration only, i.e. latest known salary, benefits and pension.

- on-target: fixed remuneration plus on-target annual bonus (50% of maximum) plus threshold (25%) PSP shares.
- maximum: fixed remuneration plus full payout of all incentives, that is 130% of salary in annual bonus, 160% of salary in PSP.

The maximum remuneration receivable by each executive director assuming share price appreciation of 50% during the performance period would be £2.6 million in respect of the Chief Executive Officer and £1.6 million in respect of the Chief Financial Officer. The basis of the calculation of the share price appreciation is that the share value embedded in the calculation for the 'maximum' bar chart is assumed to increase by 50% across the performance period.

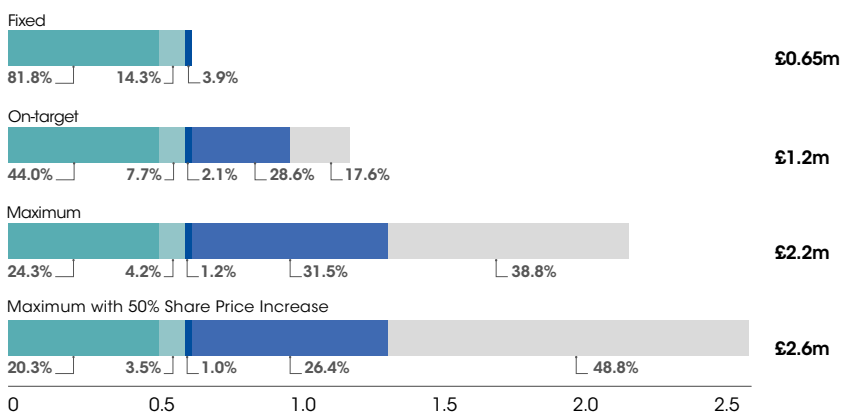
### Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates. 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.

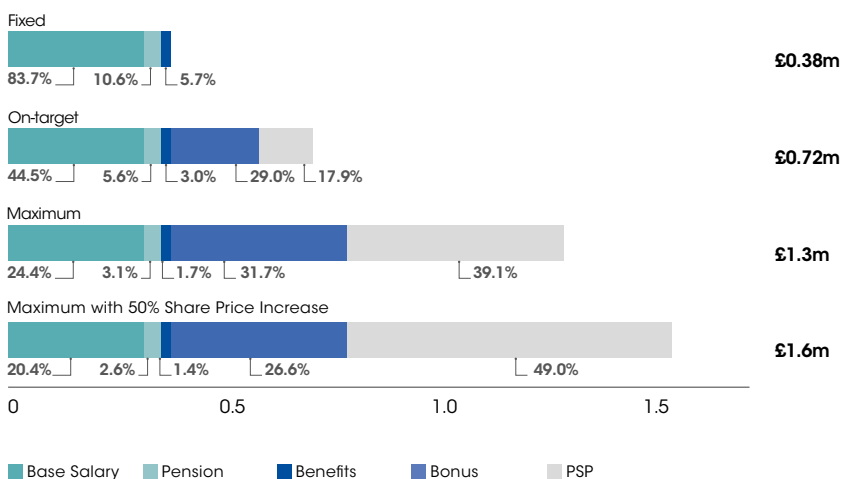
The maximum level and structure of ongoing variable remuneration will be in accordance with the approved remuneration policy, i.e. at an aggregate maximum of up to 130% in respect of annual bonus and, if necessary, 250% in respect of the PSP and/or cash awards at equivalent value. For the avoidance of doubt, these limits shall not apply to any replacement awards which the Committee may determine it necessary to make to secure the services of a preferred candidate.

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

#### Chief Executive Officer



#### Chief Financial Officer



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 Directors' Remuneration Report following the date of recruitment, which will provide explanations in relation to the amount and delivery structure of the awards made for the purposes of recruitment.

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

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

As noted in the proposed 2020 Policy, any new executive director will be subject to a new maximum annual pension contribution from the Company of 12% of base salary, in line with the most common rate for UK employees.

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

### Directors' service agreements and letters of appointment

In 2014, the Committee adopted a policy in relation to service agreements for newly appointed executive directors of six months'

notice. Gerard Ryan remains an exception to this, having been appointed on a 12-month rolling contract prior to this change in policy. Justin Lockwood was appointed on a six-month rolling contract.

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

Our Articles of Association require that all directors retire from office if they have not retired at either of the preceding two AGMs. At the 2020 AGM, all directors (with the exception of Dan O'Connor) will be standing for election or re-election, in compliance with the UK Corporate Governance Code. Service agreements are available for inspection at the Company's registered office. Service agreements and letters of appointment are not reissued when base salaries or fees are changed.

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

Executive director	Date of service agreement	Duration of service agreement
Gerard Ryan	January 2012	No fixed term
Justin Lockwood	February 2017	No fixed term

Non-executive director	Date of appointment
Dan O'Connor	January 2015
Deborah Davis	October 2018
John Mangelaars	July 2015
Richard Moat	July 2012
Cathryn Riley	February 2014
Bronwyn Syiek	October 2018

Tony Hales was appointed as a non-executive director in July 2007 and stepped down from the Board at the conclusion of the 2019 AGM.

### Loss of office payments

Our policy is to limit severance payments on termination to pre-established contractual arrangements. If the employment of an executive director is terminated, any compensation payable will be determined having regard to the terms of the service contract between the Company and the employee, as well

as the rules of any incentive plans. Except in circumstances of gross misconduct or voluntary termination, the Company retains discretion to make ex-gratia payments where considered reasonable and fair in the Committee's opinion, and to cover costs solely relating to termination of employment by the Company. Example costs may include legal, tax and outplacement services subject to such fees being de minimis in nature and in the best interests of the Company.

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

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

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

### **Approval for payments outside the Remuneration Policy**

Remuneration payments and payments for loss of office to directors can only be made if they are consistent with the approved Remuneration Policy or if an amendment to that Policy authorising the Company to make the payment has been approved by shareholders.

### **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 currently available at the absolute discretion of the Committee to executive directors, the senior management group and other selected employees. The SAYE is available to all UK employees.

### **Policy on executive directors holding external appointments**

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

## **Annual Remuneration Report 2019**

### **Additional disclosures for Single Figure of Total Remuneration table (as detailed on page 97).**

#### **Base salary**

The base salary of the Chief Executive Officer will be unchanged in 2020 at £533,000, following increases of 2.5% in 2019 and 3% in 2018. The base salary of the Chief Financial Officer will be increased by 5% from April 2020 to £320,250, representing the final stage of a planned progression in line with the Committee's intent, communicated in the 2016 Directors' Remuneration Report, to achieve a level of base pay over time that is commensurate with the role (subject to performance), the Committee having also considered relevant market data and the salary (£320,000) paid to the previous incumbent.

#### **Benefits**

The benefits provided to the executive directors in 2019 included: private healthcare, life assurance, annual medical, long-term disability cover, and a cash allowance in lieu of a company car. Neither of the executive directors received total taxable benefits exceeding 8% of salary in 2019, and it is not anticipated that the cost of benefits provided will exceed this level materially during the period in which the 2020 Policy applies.

### **Determination of 2019 annual bonus**

The maximum opportunity for both the Chief Executive Officer and Chief Financial Officer was 100% of salary (65% for on-target performance with no payout for below target performance). During 2019, a balanced scorecard approach was again used to ascertain the annual bonus where:

- 60% of total bonus opportunity was subject to achieving against the profit before tax target;
- a further 10% was contingent on achieving against the credit issued growth target in Mexico home credit; and
- a further 10% was contingent on achieving against the IPF Digital average net receivables growth target.

The remaining 20% of the plan outcome (from a maximum of 100% of base salary) was subject to the achievement of personal objectives and conditional upon the achievement of these financial measures.

The bonus outcome in respect of personal performance is determined by an assessment of performance versus personal objectives by the Committee, having taken into account the stretch associated with the objectives set and performance against them.



## Single figure of total remuneration (audited information)

The following table sets out the single figure of total remuneration for directors for the financial years ended 31 December 2018 and 2019.

	Salary/Fees £'000		Benefits £'000		Bonus <sup>1</sup> £'000		LTIP £'000		Pension £'000		Total £'000	
	2019	2018	2019	2018	2019	2018	2019 <sup>2</sup>	2018	2019	2018	2019	2018
<b>Executive directors</b>												
Gerard Ryan	530	516	25	26	383	506	229	19	93	91	1,260	1,158
Justin Lockwood	299	275	22	22	216	270	122	4	41	38	700	609
<b>Non-executive directors</b>												
Dan O'Connor	200	200	-	-	-	-	-	-	-	-	200	200
Deborah Davis	55	11	-	-	-	-	-	-	-	-	55	11
Tony Hales <sup>3</sup>	26	75	-	-	-	-	-	-	-	-	26	75
John Mangelaars <sup>4</sup>	65	65	-	-	-	-	-	-	-	-	65	65
Richard Moat <sup>5</sup>	83	70	-	-	-	-	-	-	-	-	83	70
Cathryn Riley <sup>6</sup>	65	65	-	-	-	-	-	-	-	-	65	65
Bronwyn Syiek	55	11	-	-	-	-	-	-	-	-	55	11

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 2019 award was determined is provided in the additional disclosures section on page 96.
2. The value of awards included in the table for 2019 relates to the DSP matching and PSP awards granted in 2017, the performance period for which was the three financial years ended 31 December 2019. This value also includes the anticipated value of dividend equivalents that will be payable in 2020. The awards have been valued according to an estimate based on expected vesting and the 1-month average share price to 31 January 2020. 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 long-term incentives section on page 100.
3. Tony Hales was senior independent non-executive director until he stepped down from the Board at the 2019 AGM.
4. John Mangelaars chaired the Technology Committee during 2019. In addition to his base fee of £55,000, he was paid a fee of £10,000 per annum for this additional responsibility.
5. Richard Moat was appointed senior independent director from 2 May 2019 and chaired the Audit and Risk Committee during 2019. In addition to his base fee of £55,000, he received fees of £20,000 (pro-rated) and £15,000 per annum respectively for these additional responsibilities.
6. Cathryn Riley chaired the Remuneration Committee during 2019. In addition to her base fee of £55,000, she was paid a fee of £10,000 per annum for this additional responsibility.

## Group bonus targets

Group bonus targets were set considering the Company's operating budget. Targets were designed to be stretching to drive desired behaviours and increase motivation and focus. The Group bonus targets for 2019 were as follows:

	Weighting	Threshold	Target	Maximum	Achievement	Bonus payout
Group profit before tax	60%	£108.5m	£113.8m	£119.4m	£114.0m	54.8%
Mexico credit issued growth	10%	-	11.9%	13.9%	(12.0%)	0%
IPF Digital average net receivables growth	10%	-	32.7%	39.0%	26.0%	0%

Bonus targets were adjusted for constant exchange rates in line with the actual performance.

The Group delivered a good financial performance in 2019 with an increase in profit before tax of £4.7 million driven by strong operational delivery in European home credit and established IPF Digital businesses. This was despite unexpected regulatory headwinds in Poland. As detailed on page 127, a provision of £4 million has been made for early settlement rebates in the Polish market. In determining the bonus pay-out for Group performance, the Committee took into account the reason for the provision, the role of management in continuing to mitigate this risk and the fact it was not foreseen at the time targets were set. Consequently, the Committee decided it appropriate to use an adjusted profit number which resulted in a bonus pay-out of 54.8% compared to 39.7% had the reported number been used.

In respect of other financial targets, credit issued growth in Mexico home credit was below target reflecting the prioritisation of credit quality over growth, and IPF Digital's average net receivables growth, while strong, was below target. Consequently, the bonus payable in respect of these targets was 0%. 50% of the bonus earned will be deferred into shares for three years.

- Criteria met
- Criteria partially met
- Criteria not met

## Personal objectives

The table below shows the objectives that were set for the Chief Executive Officer and Chief Financial Officer in 2019 and achievement against them.

### Gerard Ryan - Chief Executive Officer

Category	Objectives	Weighting %	Results	Achievement
Funding	Ensure that the Group is positioned to manage its liquidity so as to cope with the possible crystallisation of the extraneous tax risk in Poland. Ensure an appropriate mix of funding facilities is available for all eventualities.	20%	A very strong performance with clear execution of critical and complex projects. Notably, risks relating to longstanding Polish tax matters have been significantly reduced and focused actions have enabled us to achieve a significantly improved position from a refinancing perspective. Overall, excellent financial and risk leadership.	<span style="color: teal;">●</span>
Regulation	Minimise the risk arising from regulatory changes across Europe. Dedicate sufficient time and energy to build strong relationships with external stakeholders in order to influence a more positive outcome for the business.	20%	Assured and highly effective navigation of a challenging regulatory landscape has resulted in minimal business impact during 2019. The objective to build positive and sustainable stakeholder relationships has been achieved. Outstanding and experienced team in place and working well.	<span style="color: teal;">●</span>
People and structure	Ensure that the people review process is fit for purpose and produces high-calibre successors for the key roles in the Group. Review and optimise the organisation structure of the Group to optimise the efficiency of the organisation.	20%	Significant strengthening of our home credit organisation structure to drive our global strategy was implemented extremely effectively during 2019. This was enabled by strong internal leadership talent and experience being available to deploy. Excellent global retention of critical people and skills.	<span style="color: teal;">●</span>
Innovation	Provide sufficient resource and direction for the business units to develop new products that are appropriate for changed regulatory circumstances and that will allow the Group to build new income streams. Drive the use of data within the organisation as a strategic lever to make the business more sustainable.	20%	2019 was a year of step change in innovation. Very strong performances were achieved in the origination and launch of digital products and the increasing use of data science to inform new approaches and methodologies across IPF. Innovation will continue to be a core focus into 2020.	<span style="color: teal;">●</span>
Technology	Provide sufficient resources, both human and capital, to enable the Group to deliver new products and services. At the same time make the required strategic decisions regarding the future structure of our technology platforms to both minimise cost to serve and enhance resilience.	20%	The pace of market change has challenged internal plans and resources. While the organisation is well supported by technology, there is still work to do to increase and optimise our organisation capability and speed of execution.	<span style="color: orange;">●</span>

## Justin Lockwood – Chief Financial Officer

Category	Objectives	Weighting %	Results	Achievement
Funding	Evolve and execute the debt funding strategy (including a second credit rating).	25%	Debt funding strategy developed, and execution commenced in 2019 against the backdrop of challenging regulatory matters that have impacted the Group. This included obtaining a second credit rating with Moody's, refinancing a substantial proportion of the sterling retail bond in June 2019 and extending the maturity profile of the Group's bank facilities.	●
Taxation	Proactively manage open tax audit positions with particular reference to issues in Poland.	25%	Managed the resolution of the Polish tax audit dispute for the years 2010 to 2017, which removed a liquidity and capital risk of £137 million. Proactive management of the 2008 and 2009 cases aimed at the resolution of these years. No further significant issues arising from tax audits.	●
Business strategy	European home credit – deliver cost reduction plans; drive finance engagement in data strategy and deliver value; focus on yield management.	25%	Excellent performance delivered in European home credit with active management of revenue yield, use of predictive modelling and tight cost control.	●
	Mexico home credit – optimise performance of the existing branch network; proactively monitor and shape the economics of the micro-business model; proactively monitor the delivery of returns from geographical expansion.		Whilst the performance of Mexico was challenging in 2019, changes were made to restructure resources to focus on delivering returns in different areas of the business. Performance stabilised in the second half benefiting from this shift in focus.	●
	IPF Digital – lift profile of return generation in the medium term; review capital structure for IPF Digital taking into account credit risk profile and average duration of receivables.		IPF Digital delivered its maiden profit aided by improved cost control. Use of ROA measure embedded in the business. Capital structure reviewed and considered appropriate for now.	●
People	Increase leadership capability across the finance function with a focus on business partnering and commercial finance.	25%	Finance organisation strengthened in key areas through selective recruitment and development of existing talent through structured finance-specific development programme.	●

Having reviewed the executive directors' performance against their personal objectives and in the context of the challenges faced by the business in 2019, the Committee determined that each executive director met the majority of his objectives in full. Consequently, the bonus payout in respect of personal objectives is 17.5% for the CEO and 17.5% for the CFO.

## Bonus outcome for 2019

The Committee awarded bonuses to the executive directors of the amounts shown below for the year ended 31 December 2019.

	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 2023 £'000	Total value of 2019 annual bonus £'000	Cash and DSP shares award as a percentage of maximum bonus available
Gerard Ryan	54.8%	17.5%	191.4	191.4	382.8	72.3%
Justin Lockwood	54.8%	17.5%	108.0	108.0	216.0	72.3%

The bonus is payable 50% in cash and 50% in deferred shares, which will vest at the end of a three-year period, subject to the executive director not being dismissed for misconduct. There are also provisions for clawback, with respect to the cash element of the bonus and malus and clawback with respect to the deferred elements of the bonus, as detailed on page 93.

## Pension

The Company has two pension schemes, the International Personal Finance plc Pension Scheme ('the Pension Scheme') and the International Personal Finance Stakeholder Pension Scheme ('the Stakeholder Scheme'). New employees are eligible to join the Stakeholder Scheme. The rate of Company pension contribution for the Chief Executive Officer is 20% of base salary and for the Chief Financial Officer is 15% of base salary. At the discretion of the Committee, this may be paid wholly, or in part, as a cash allowance, net of employer's National Insurance contributions.

The Company's contributions in respect of Gerard Ryan during 2019 amounted to £93,129, all of which was paid as a cash allowance. The Company's contributions in respect of Justin Lockwood during 2019 amounted to £40,591, £30,591 of which was paid as a cash allowance.

## Long-term incentives

### Awards estimated to vest during 2020 (included in 2019 Single Figure)

The LTIP amount included in the 2019 single figure relates to the DSP matching shares and PSP awards granted in 2017. The performance achieved against the performance targets is shown below:

### PSP and DSP matching shares

Performance condition	Weighting	Threshold	Maximum	Achieved	Projected vesting
Absolute TSR growth <sup>1</sup>	1/3	30% TSR over 3 years	60% TSR over 3 years	(46)%	0%
Cumulative EPS growth	1/3	76.6 pence	89.3 pence	89.2%	33%
Growth in revenue less impairment	1/3	5.2% p.a.	7.0% p.a.	4.3%	0%
<b>Total</b>					<b>33%</b>

1. Based on TSR from 1 January 2017 to 31 December 2019.

The 2017 PSP scheme was put in place using the business plan that was approved by the Board in December 2016 as the basis for targets. This business plan was prepared using IAS39 as the basis for revenue and impairment accounting and therefore the targets have been updated to reflect the implementation of IFRS 9 for the 2018 and 2019 financial years (2017 was reported under IAS39 and therefore the original targets remain relevant).

As disclosed in the 2017 Policy (and retained in the 2020 Policy), executive directors are expected to acquire a beneficial shareholding over time equivalent to a minimum of 200% of salary. 50% of all share awards vesting under any of the Company's equity incentive plans (net of exercise costs, income tax and social security contributions) must be retained until the requirement is met. Executive directors' current holdings against the guideline are disclosed on page 103.

## Awards granted during 2019

Executive directors were granted long-term incentive plan awards structured as PSP options in April 2019. The resulting number of PSP shares and associated performance conditions are set out below. Awards granted in 2020 will be in line with the 2017 Policy.

	Number of PSP nil-cost options <sup>1</sup>	Face value <sup>2</sup> £	Percentage of base salary	End of performance period	Threshold vesting	Weighting	Performance conditions
Gerard Ryan	502,688	988,285	190%	31 December 2021	25%	1/2	Absolute TSR
					25%	1/4	Cumulative EPS growth
					25%	1/4	Growth in revenue less impairment

Justin Lockwood	270,600	532,000	190%	31 December 2021	25%	1/2	Absolute TSR
					25%	1/4	Cumulative EPS growth
					25%	1/4	Growth in revenue less impairment

- The awards are nil-cost options to acquire shares for £nil consideration.
- The awards are options to acquire shares for their market value calculated using the average share price for the three days before the day of grant, being 196.6 pence per share.

## Performance conditions

Awards granted during 2019 will vest as follows, with straight-line vesting between the points:

	Absolute TSR	Cumulative EPS growth	Growth in revenue less impairment
Weighting	1/2	1/4	1/4
Vested at threshold	25%	25%	25%
Threshold	30% over 3 years	82.8 pence	5.7% p.a.
Stretch (100% vesting)	60% over 3 years	100.6 pence	6.9% p.a.

## DSP

In 2019, half of the annual bonus earned in respect of 2018 was deferred into shares. There are no further performance conditions attached to the vesting of the deferred shares.

The following table sets out details of awards of nil-cost options made during the year under the DSP:

	Date of award	Face value <sup>1</sup> £
Gerard Ryan	8 March 2019	253,043
Justin Lockwood	8 March 2019	134,793

- The face value was calculated using the average share price for the three days before the day of grant, being 196.6 pence per share.

## SAYE

As noted in the 2017 Policy (and reiterated in the 2020 Policy), UK-based executive directors are entitled to participate in the Company's all-employee plan. During the year, both Gerard Ryan and Justin Lockwood were granted options (see pages 104 and 105 for details).

## Loss of office payments

No payments were made for loss of office during 2019.

## Payments to past directors (audited information)

No payments were made to past directors during the year.

## Percentage change in Chief Executive Officer's remuneration

The table below shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2018 and 2019 compared with the percentage change in aggregate pay in each of those components for a selected group of employees. The senior management group (SMG) is the selected comparator group (currently 11 individuals with complete 2018 and 2019 service as SMG and 12 individuals in total), due to the structure of their remuneration package, and the ability to make a meaningful comparison between the pay of the Chief Executive Officer and the comparator group.

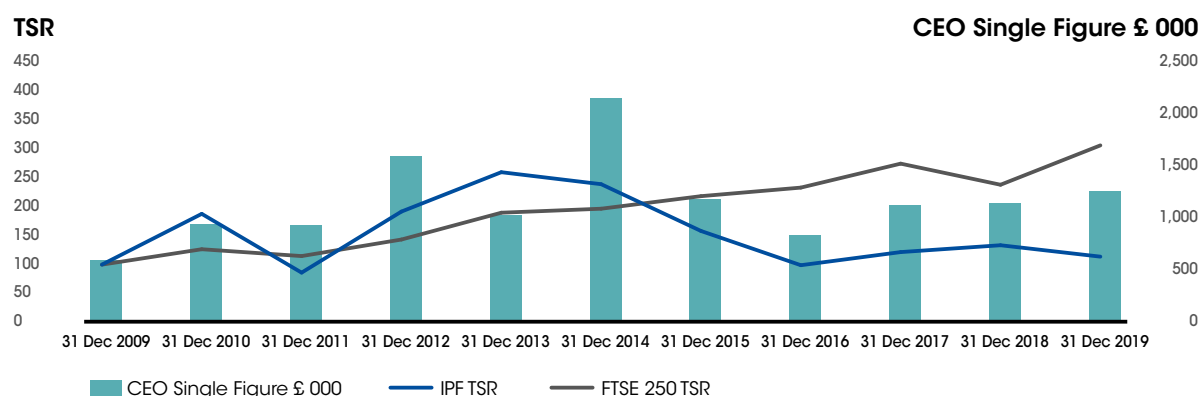
	CEO		Senior management group
	To 31 December 2019 £'000	Percentage change (2019 vs 2018)	Percentage change (2019 vs 2018)
Salary	530	2.7%	4%
Benefits	25	(3.8)%	8.1%
Bonus	383	(24.3)%	(29.2)%



## TSR performance

The graph below compares the TSR of the Company with the companies comprising the FTSE 250 Index for the eleven-year period ended 31 December 2019. This index was chosen for comparison because the Company has been a member of this index for the majority of the time since its shares were listed on 16 July 2007. TSR data is presented in tandem with CEO single figure total remuneration for the same period to highlight the relationship between remuneration and shareholder returns.

### IPF TSR vs FTSE 250 vs CEO single figure total remuneration



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:

Year	CEO Name	CEO single figure of remuneration (£'000)	Annual bonus payout (as % maximum opportunity)	LTIP vesting (as % of maximum opportunity)
2019	Gerard Ryan	1,260	72.3	33%
2018	Gerard Ryan	1,158	98.0%	0%
2017	Gerard Ryan	1,130	96.6%	0%
2016	Gerard Ryan	838	16%	23.3%
2015	Gerard Ryan	1,197	45%	58.8%
2014	Gerard Ryan	2,172	74.2%	100%
2013	Gerard Ryan	1,037	100%	-
2012	Gerard Ryan <sup>1</sup>	889	80%	-
	John Harnett <sup>2</sup>	718	-	-
2011	John Harnett	943	67%	-
2010	John Harnett	952	80%	-

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

2. John Harnett resigned on 31 March 2012.

## Relative spend on pay

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

£million unless otherwise stated	2019	2018	Percentage change
Overall expenditure on pay	200.9	192.9	2.4% <sup>1</sup>
Dividend paid in the year	27.7	27.7	0%

1. The percentage increase at a constant exchange rate is 3.4%.

## Other directorships

The executive directors do not currently hold any external directorships or external appointments.

### Directors' shareholdings and share interests (audited information)

The interests of each person who has served as a director of the Company during the year as at 31 December 2019 (together with interests held by his or her persons closely associated) are shown in the table below. When Cathryn Riley, Richard Moat and Dan O'Connor bought shares they invested sufficiently to meet the shareholding requirement. Bronwyn Syiek and Deborah Davis are currently within the three-year period to build their shareholding. Executive directors are required to retain half of any vested Company share plan options until the shareholding requirement is met.

	Shares held	Options held					Shareholding required (% salary/fee)	Shareholding (% salary/fee) <sup>1</sup>	Requirement met
	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			
<b>Executive directors<sup>2</sup></b>									
Gerard Ryan	1,256,576	1,312,866	262,360	20,930	-	-	200	382	Yes
Justin Lockwood	89,922	692,927	156,817	20,930	-	500	200	48	No
<b>Non-executive directors<sup>3</sup></b>									
Deborah Davis	-	-	-	-	-	-	100	0	No
John Mangelaars	50,000	-	-	-	-	-	100	146	Yes
Richard Moat	15,000	-	-	-	-	-	100	44	No
Dan O'Connor	41,500	-	-	-	-	-	100	33	No
Cathryn Riley	14,795	-	-	-	-	-	100	43	No
Bronwyn Syiek	20,000	-	-	-	-	-	100	59	No

1. Based on a share price of 161 pence, being the closing price on 31 December 2019 and using the non-executive directors' base fee.

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

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

There were no changes to these interests between 31 December 2019 and 26 February 2020.

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

The current shareholding requirements for executive and non-executive directors are described on the Company website [www.ipfin.co.uk](http://www.ipfin.co.uk).

In addition, the following director had acquired interests in the sterling retail bond as follows:

Director	Retail bond as at 31 December 2019
Cathryn Riley	£28,800

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

	Date of award	Awards held at 31 December 2018	Awarded in 2019	Exercised in 2019	Lapsed In 2019 <sup>1</sup>	Awards held at 31 December 2019	Performance condition period	Market price at date of grant (p)	Exercise price (p)	Exercise period
Gerard Ryan										
PSP	23 Mar 2016	211,153	-	-	(211,153)	-	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
	11 Apr 2017	370,408	-	-	-	<b>370,408</b>	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
	19 Apr 2018	408,162	-	-	-	<b>408,162</b>	1 Jan 2018 – 31 Dec 2020	248	-	19 Apr 2021 – 18 Apr 2028
	8 Mar 2019	-	502,688	-	-	<b>502,688</b>	1 Jan 2019 – 31 Dec 2021	191	-	-
CSOP	23 Mar 2016	10,224	-	-	(10,224)	-	1 Jan 2016 – 31 Dec 2018	282	293	23 Mar 2019 – 22 Mar 2026
DSP: Deferred	23 Mar 2016	51,004	-	(51,004)	-	-	-	282	205	-
Matching	23 Mar 2016	51,004	-	-	(51,004)	-	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
Deferred	11 Apr 2017	31,608	-	-	-	<b>31,608</b>	-	170	-	-
Matching	11 Apr 2017	31,608	-	-	-	<b>31,608</b>	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
Deferred	10 Apr 2018	102,043	-	-	-	<b>102,043</b>	-	246	-	-
Deferred	8 Mar 2019	-	128,709	-	-	<b>128,709</b>	-	191	-	-
SAYE	29 Mar 2012	7,777	-	-	(7,777)	-	-	-	198	1 Jun 2019 – 30 Nov 2019
	23 Aug 2017	19,480	-	-	(19,480)	-	-	-	154	1 Nov 2022 – 31 May 2023
	30 Aug 2019	-	20,930	-	-	<b>20,930</b>	-	-	86	1 Nov 2022 – 31 May 2023
<b>Total</b>		<b>1,294,471</b>	<b>652,327</b>	<b>(51,004)</b>	<b>(299,638)</b>	<b>1,596,156</b>				

1. The March PSP, CSOP and DSP Matching 2016 all vested at 0%.

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

	Date of award	Awards held at 31 December 2018	Awarded in 2019	Exercised in 2019	Lapsed In 2019 <sup>1</sup>	Awards held at 31 December 2019	Performance condition period	Market price at date of grant (p)	Exercise price (p)	Exercise period
Justin Lockwood										
PSP	23 Mar 2016	43,246	-	-	(43,246)	-	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
	11 Apr 2017	190,705	-	-	-	190,705	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
	19 Apr 2018	219,716	-	-	-	219,716	1 Jan 2018 – 31 Dec 2020	248	-	19 Apr 2021 – 18 Apr 2028
	8 Mar 2019	-	270,600	-	-	270,600		191	-	
CSOP	4 Mar 2014	500	-	-	-	500	1 Jan 2014 – 31 Dec 2016	525	525	4 Mar 2017 – 3 Mar 2024
	23 Mar 2016	3,744	-	-	(3,744)	-	1 Jan 2016 – 31 Dec 2018	282	293	23 Mar 2019 – 22 Mar 2026
DSP: Deferred	23 Mar 2016	11,687	-	(11,687)	-	-	-	282	205	-
Matching	23 Mar 2016	3,895	-	-	(3,895)	-	1 Jan 2016 – 31 Dec 2018	282	-	23 Mar 2019 – 22 Mar 2026
Deferred	11 Apr 2017	35,718	-	-	-	35,718	-	170	-	-
Matching	11 Apr 2017	11,906	-	-	-	11,906	1 Jan 2017 – 31 Dec 2019	170	-	11 Apr 2020 – 10 Apr 2027
Deferred	10 Apr 2018	52,537	-	-	-	52,537	-	246	-	-
Deferred	8 Mar 2019	-	68,562	-	-	68,562	-	191	-	-
SAYE	23 Aug 2017	11,688	-	-	(11,688)	-	-	-	154	1 Nov 2022 – 31 May 2023
	30 Aug 2019	-	20,930	-	-	20,930	-	-	86	1 Nov 2022 – 31 May 2023
<b>Total</b>		585,342	360,092	(11,687)	(62,573)	871,174				

1. The March PSP, CSOP and DSP Matching 2016 all vested at 0%.

The mid-market closing price of the Company's shares on 31 December 2019 was 161 pence and the range during 2019 was 87 pence to 222.2 pence. The aggregate gains of directors arising from the exercise of options granted under the DSP in the year totalled £128,673.

### Share dilution

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

### Shareholder voting

The table below summarises voting outcomes at the 2017, 2018 and 2019 AGMs (% of total votes cast):

AGM		For	Against	Withheld <sup>1</sup>
2017	Annual Remuneration Report	99.20%	0.80%	0.63%
2017	Directors' Remuneration Policy	99.14%	0.86%	0.01%
2018	Annual Remuneration Report	98.65%	1.35%	0.00%
2019	Annual Remuneration Report	87.64%	12.36%	0.01%

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

## Statement of Implementation

The base salary for the Chief Executive Officer will remain unchanged at £533,000 for 2020.

The base salary of the Chief Financial officer will be set at £320,250 for 2020, an increase of 5% as explained in the Chair's letter on page 86.

For 2020, the maximum bonus opportunity will remain at 100% of base salary (on target 65%), and PSP awards at 190% of base salary before rebalancing bonus to a maximum of 130% (on target 50% of the maximum) and PSP awards to 160% in 2021, after the 2020 Policy is approved. Other features of the 2020 Policy such as the reduction in the pension level for new executive directors and the post-cessation shareholding policy will apply immediately once the 2020 Policy is approved at the AGM. The performance measures under the old and new policies will be 80% financial and strategic and 20% personal, also in line with the 2020 Policy. Annual bonus targets are not disclosed on a forward-looking basis because they are considered by the Board to be commercially sensitive but will continue to be disclosed retrospectively to ensure transparency.

The Committee expects to make 2020 LTIP awards prior to the 2020 AGM in accordance with the 2017 Policy. The 2020 LTIP awards will be measured against the following targets, each of which will operate on the basis of a straight line between threshold, target and stretch.

Performance condition	Weighting	Threshold (Vesting 25%)	Maximum (Vesting 100%)
Absolute TSR Performance	1/2	30% over 3 years	60% over 3 years
Cumulative EPS Growth	1/4	83.5 pence	101.4 pence
Net Revenue Growth	1/4	4.3% p.a.	5.2% p.a.

## 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)
- Dan O'Connor
- Richard Moat
- Deborah Davis
- Tony Hales<sup>1</sup>

<sup>1</sup> Tony Hales stepped down from the Committee and the Board at the conclusion of the 2019 AGM.

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

## Advisor to the committee

Willis Towers Watson, which was appointed in April 2016, provides independent remuneration advice to the Committee. During 2019 total fees in respect of advice to the Committee (based on time and materials) totalled £75,180 (excluding VAT). Willis Towers Watson is a founding member of the Remuneration Consultants Group and is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). The Committee is satisfied that the advice it receives is objective and independent, and that Willis Towers Watson does not have any connections with the Company or any of the directors that may impair its independence. The Committee has determined to review the provisions of its independent advice in 2020 and appoint/reappoint an advisor to the Committee.

Approved by the Board

### Cathryn Riley

Chair

26 February 2020



## Directors' responsibilities

### Annual Report and Financial Statements

International Personal Finance plc presents its Annual Report and Financial Statements and its consolidated Annual Report and Financial Statements as a single Annual Report.

### Directors' responsibilities in relation to the Financial Statements

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

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

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

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

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

### Post-balance sheet events and future developments

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

### Responsibility statement under the Disclosure and Transparency Rules

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

- the Financial Statements, prepared in accordance with IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and Directors' Report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

### Report review process for Annual Report

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

### Disclosure of information to the auditor

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

### Going concern and viability statement

The Board statement on its adoption of the going concern basis in preparing these Financial Statements and the viability statement concerning the assessment of the Company's long-term prospects is given on pages 43 and 53.

### 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 2019 to the date of this Annual Report and Financial Statements and is satisfied that they are effective.

By order of the Board

**James Ormrod**  
Company Secretary

26 February 2020

## Report on the audit of the Financial Statements

### 1. Opinion

#### In our opinion:

- the Financial Statements of International Personal Finance plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements which comprise:

- the consolidated income statement;
- the consolidated and Parent Company statements of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statements;
- the statement of accounting policies; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.



### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"><li>• revenue recognition</li><li>• impairment of receivables</li><li>• the Polish debt option agreement challenge</li></ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"><li> Similar level of risk</li><li> Decreased level of risk</li></ul>
<b>Materiality</b>	<p>The materiality that we used for the Group Financial Statements was £5.6 million which was determined on the basis of 5% of profit before tax.</p>
<b>Scoping</b>	<p>We focused our Group audit primarily on the key components based in seven locations, six of which were subject to a full audit, with the remaining subject to testing of specific balances.</p>
<b>Significant changes in our approach</b>	<p>There have been no significant changes in our audit approach from the prior period.</p>

## 4. Conclusions relating to going concern, principal risks and viability statement

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### 4.1. Going concern

**Going concern is the basis of preparation of the Financial Statements that assumes an entity will remain in operation for a period of at least twelve months from the date of approval of the Financial Statements.**

We have reviewed the directors' statement within the statement of accounting policies about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

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### 4.2. Principal risks and viability statement

**Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.**

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 46 - 53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 53 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 53 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

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## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

### 5.1. Revenue recognition

<b>Key audit matter description</b>	<p>The Group recognises revenue on loans using the effective interest rate ("EIR") method applicable under IFRS 9 Financial Instruments. This method involves the application of significant management judgement, in particular over ensuring that early redemptions experience and all contractual terms are reflected in management's calculation of the EIR for each product issued. For this reason, we have identified a specific risk of fraud in accordance with ISA (UK) 240.</p> <p>Specifically, we identified a risk around the accuracy and completeness of cash flows included in management's calculation of the 'EIR' for each product, in order to ensure that evidence of early settlement behaviour - including early settlement rebates where applicable - had been appropriately considered.</p> <p>The key audit matter is described further in the Audit and Risk Committee's report on page 78 and within the key sources of estimation uncertainty on page 126. The revenue balance for the period is disclosed in the consolidated income statement, and note 1 to the Financial Statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We tested the key controls relevant to the revenue recognition cycle, including those performed in the component markets, to ensure that the cash flow data used in management's calculations is accurate and complete.</p> <p>We involved IT specialists to re-calculate a sample of product and cohort EIRs, based on an independent extract of source data from core lending systems, and confirmed the mechanical accuracy of models used by management.</p> <p>We assessed the appropriateness of management's key judgements used to calculate the EIR by reference to recently observable collections phasing and early redemption behaviour of the Group's loan portfolios.</p> <p>We also assessed whether the revenue recognition policies applied to all material loan types offered by the Group were appropriate and in accordance with IFRS 9 and other applicable accounting standards.</p>
<b>Key observations</b>	<p>As a result of our audit testing, we found that the methodology used for calculating the EIRs is materially accurate and complete in the context of the Group's accounting policies and the requirements of the relevant accounting standards.</p>

### 5.2. Impairment of receivables

<b>Key audit matter description</b>	<p>Determination of impairment provisions against customer receivables is highly judgemental, requiring estimates to be made regarding the future losses that are expected to accrue on the Group's loan portfolios. Key judgements applied include determination of an individual loan's probability of default, exposure at default and loss given default. These estimates are based on a combination of historically observable collections performance and post-model overlays made to account for emerging risks that are not yet fully observable in the Group's data.</p> <p>We identified a specific risk over the accuracy and completeness of post-model overlays applied due to their reliance on management judgement, and therefore the risk of fraud, as well as their materiality to the Financial Statements of the Group.</p> <p>The key audit matter is described further in the Audit and Risk Committee's report on page 78 and within the key sources of estimation uncertainty on page 126. Please also see note 15 for further information.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of the controls performed at a Group level in relation to the impairment cycle, and used IT specialists to test the key automated controls in place. In addition, we tested the key controls performed in the component markets to ensure that the cash flow data used in management's calculations is accurate and complete.</p> <p>Where necessary, we tested the completeness and accuracy of information used in key lending controls, which included extraction of source data from the core lending systems used and independent re-calculation of the relevant information.</p> <p>We also used IT specialists to test the key IT controls over the systems in which source customer receivable data is maintained, and reviewed minutes to confirm the existence of key governance review controls.</p> <p>We reviewed and challenged management's approved impairment provisioning methodology against the requirements of IFRS 9, and assessed whether management's approach was materially consistent with those applied by other similar financial institutions.</p> <p>We evaluated the appropriateness of the probability of default, exposure at default and loss given default assumptions used with reference to our understanding of recently observable collections performance. We also challenged the appropriateness of using historical data to predict future collections performance, with reference to our understanding of internal and external factors affecting the Group's businesses.</p> <p>We re-calculated a sample of these assumptions from independent extracts of customer receivable data and reperformed the year-end impairment calculations on a sample basis to confirm the mechanical accuracy of management's calculations.</p> <p>Finally, we reviewed and challenged the completeness and accuracy of management's provisioning overlays, with reference to analysis of recent collections performance, other identified impairment risks and analysis of internal and external data for each of the Group's material markets.</p>
<b>Key observations</b>	<p>As a result of our audit testing, we found that the impairment methodology applied by management was reasonable and that the assumptions used in the calculations performed were appropriately applied.</p> <p>We concluded that the rationale for post-model overlays proposed by management was appropriate, and that the valuation of the year-end provision was within an acceptable range.</p>



### 5.3. Polish debt option agreement challenge

<b>Key audit matter description</b>	<p>IPF Poland remains subject to a corporate tax inspection covering the 2008 and 2009 tax years. In relation to these tax years, the Group paid £34.2 million of tax and interest in January 2017 to allow an appeal process to begin. The amount is recognised as a non-current tax asset in line with IAS 12 Income Taxes.</p> <p>The cases are expected to be heard by the District Administrative Court ("DAC") in H1 2020, and due to the significance of the judgement in determining the likely outcome of these challenges we continue to identify a specific risk of fraud in the current year.</p> <p>During the current year, corporate tax inspections in relation to the 2010 – 2012 tax years were concluded, with adjustments agreed and paid relating to the 2010 – 2017 tax years, reducing the level of risk associated with these years.</p> <p>Our key audit matter is therefore pinpointed to whether management's judgement on the eventual outcome of the matters relating to 2008 and 2009 is reasonable, consistent with the conclusions reached in relation to the 2010 – 2012 tax years, and supports the associated recoverability of the tax payments made.</p> <p>The key audit matter is described further in the Audit and Risk Committee's report on page 78 and within the key sources of estimation uncertainty on page 127.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of the relevant controls in place over accounting for the Polish tax challenge. This included reviewing minutes from key management review forums, and evaluating the process by which management commissioned and evaluated reports received from external tax advisers.</p> <p>Utilising tax specialists within the Group and component audit teams, we challenged management's assessment of the matter through review of the Polish tax authority's conclusions in relation to the 2010 – 2012 tax years, correspondence between IPF Poland and the relevant tax authorities and external specialist advice commissioned by management in relation to the 2008 and 2009 tax years.</p> <p>We also performed an independent assessment of the tax challenge with reference to our knowledge of similar scenarios and understanding of extant tax law. This work included sensitising the key assumptions made by management in the context of the eventual outcome of the case, and considering the implications in terms of whether provision is required against the non-current tax asset or not.</p>
<b>Key observations</b>	<p>Following challenge by our UK and Polish tax specialists, we concur with management's judgements regarding the probable outcome of the tax case, and consider that management's treatment is appropriate in line with IAS 12.</p>

## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

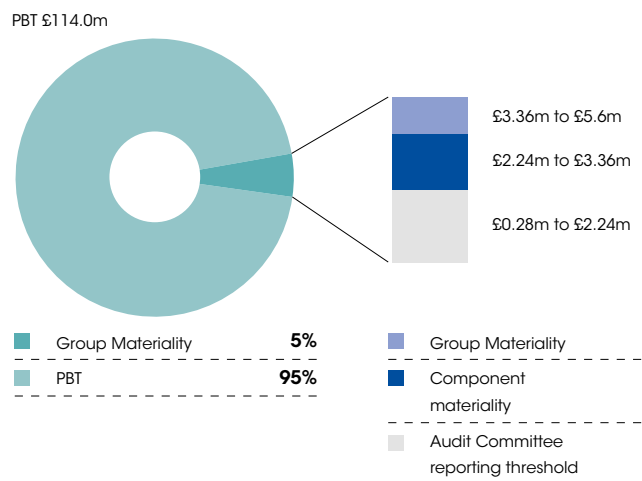
Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
<b>Materiality</b>	£5.6 million (2018: £5.4 million)	£2.8 million (2018: £2.7 million)
<b>Basis for determining materiality</b>	5% of forecast profit before tax	3% of net assets, capped at 50% of Group materiality
<b>Rationale for the benchmark applied</b>	The accumulation of profit is critical to an investor and in allowing the Group to invest in the business. We have therefore selected profit before tax as the benchmark for determining materiality.	The main operations of the Parent Company are to obtain external finance, with the main balances being the investments held in its subsidiaries and the external loan balances. We have therefore selected net assets as the benchmark for determining materiality.

### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes;
- the high degree of centralisation and common control standards in place over business processes relating to our key audit matters; and;
- our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods and a willingness on management's part to investigate and correct any misstatements identified;



### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.28 million (2018: £0.27 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.



## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

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 given locations, which were subject to a full audit, and one location which involved the testing of specific balances. The locations subject to a full audit were the components in Poland, Romania, Czech Republic, Hungary, Mexico and the UK, with a further entity in Poland subject to specific balance testing. The scope of our audit was consistent with that from the prior period, with the exception of an increase in the scope of procedures performed in the Polish entity for testing specific balances, reflecting an increase in the size of that territory relative to the Group's operations.

These seven entities represent the principal business units of the Group, and account for 97% (2018: 95%) of the Group's net receivables, 98% (2018: 96%) of the Group's revenue and 96% (2018: 95%) of the Group's profit before tax.

### 7.2. Our consideration of the control environment

We engaged internal IT specialists to perform testing of key IT controls over all relevant systems to the financial reporting process, as well as the lending process, revenue recognition process and impairment process. Our component auditors also engaged local IT specialists to perform testing of the key IT controls over the data storage platform used in-market to record and administrate customer lending.

Our IT specialists performed General IT Controls ("GITCs") testing over each of these key systems, to give assurance over the integrity, governance and security of each. Sufficient assurance was obtained to place controls reliance over all identified relevant IT systems.

We also obtained an understanding of manually operated controls performed at a Group level in relation to the Polish tax challenge and impairment of receivables key audit matters, and tested relevant controls in place over the revenue recognition and customer lending cycles.

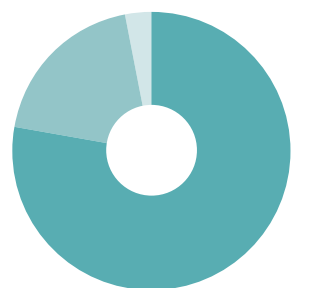
As a result of the controls work performed at both a Group and component level, we gained sufficient assurance in order to place controls reliance over both the revenue and gross carrying amount of the customer receivables.

### 7.3. Working with other auditors

At the parent entity level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

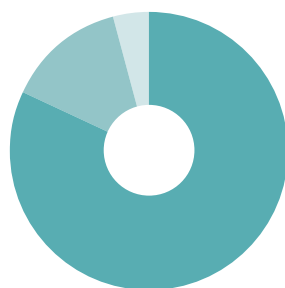
The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor visits each of the locations where the Group's audit scope is focused at least once every three years. In years when we do not visit a significant component, we will include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

#### Revenue



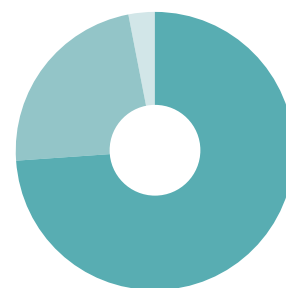
Full audit scope	78%
Specified audit procedures	19%
Review at Group level	3%

#### Profit before tax



Full audit scope	82%
Specified audit procedures	14%
Review at Group level	4%

#### Net receivables



Full audit scope	74%
Specified audit procedures	23%
Review at Group level	3%

## 8. Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. This includes the Chairman's Statement, the Chief Executive Officer's Review, the Strategic Report, Principal Risks and Uncertainties, the Directors' Report, the Corporate Governance Report, the Audit and Risk Committee Report, and the Directors' Remuneration Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

*We have nothing to report in respect of these matters.*

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

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

### 11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; or
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, pensions and IT specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, impairment of receivables and the Polish debt option agreement challenge, due to the potential for management to manipulate highly judgemental assumptions, and agent cash balances due to the possibility of misappropriation of assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included UK Companies Act, the London Stock Exchange Listing Rules and tax laws applicable to the Group's operations in Poland.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's compliance with tax and consumer credit regulatory regimes applicable in each of its significant territories.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition and impairment of receivables and the Polish debt option agreement challenge as key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

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

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

### 13. Matters on which we are required to report by exception

#### 13.1. 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.*

#### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

*We have nothing to report in respect of these matters.*

### 14. Other matters

#### 14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the members of International Personal Finance plc on 11 May 2011 to audit the Financial Statements for the year ending 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ending 31 December 2011 to 31 December 2019.

#### 14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### 15. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Peter Birch FCA (Senior statutory auditor)**

**For and on behalf of Deloitte LLP**

Statutory Auditor  
Leeds, United Kingdom

26 February 2020

Consolidated income statement  
for the year ended 31 December

Group	Notes	2019 £m	2018 £m
Revenue	1	889.1	866.4
Impairment	1	(243.5)	(227.0)
<b>Revenue less impairment</b>		<b>645.6</b>	<b>639.4</b>
Finance costs	2	(63.5)	(58.5)
Other operating costs		(137.3)	(140.8)
Administrative expenses		(330.8)	(330.8)
<b>Total costs</b>		<b>(531.6)</b>	<b>(530.1)</b>
<b>Profit before taxation</b>	1	<b>114.0</b>	<b>109.3</b>
Tax income/(expense) – UK		2.2	(0.8)
Tax expense – overseas		(44.4)	(33.1)
<b>Total tax expense</b>	5	<b>(42.2)</b>	<b>(33.9)</b>
Profit after taxation attributable to owners of the Company		<b>71.8</b>	<b>75.4</b>

Group	Notes	2019 pence	2018 pence
<b>Earnings per share</b>			
Basic	6	32.2	33.8
Diluted	6	30.3	32.2

See note 6 for further information on Earnings per share.

Statements of comprehensive income  
for the year ended 31 December

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
<b>Profit/(loss) after taxation attributable to owners of the Company</b>	<b>71.8</b>	75.4	<b>(33.9)</b>	(32.3)
<b>Other comprehensive (expense)/income</b>				
<i>Items that may subsequently be reclassified to income statement</i>				
Exchange losses on foreign currency translations	(42.2)	(8.7)	-	-
Net fair value gains/(losses) – cash flow hedges	0.6	0.3	(0.1)	1.0
Tax (charge)/credit on items that may be reclassified	5 (0.1)	0.3	-	(0.1)
<i>Items that will not subsequently be reclassified to income statement</i>				
Actuarial (losses)/gains on retirement benefit obligation	24 (1.7)	1.1	(1.7)	1.1
Tax credit/(charge) on items that will not be reclassified	5 0.2	(0.2)	0.2	(0.2)
<b>Other comprehensive (expense)/income net of taxation</b>	<b>(43.2)</b>	(7.2)	<b>(1.6)</b>	1.8
<b>Total comprehensive income/(expense) for the year attributable to owners of the Company</b>	<b>28.6</b>	68.2	<b>(35.5)</b>	(30.5)

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.



	Notes	Group		Company	
		2019 £m	2018 £m	2019 £m	2018 £m
<b>Assets</b>					
<i>Non-current assets</i>					
Goodwill	10	23.1	24.5	-	-
Intangible assets	11	43.2	38.0	-	-
Investment in subsidiaries	12	-	-	729.9	728.1
Property, plant and equipment	13	20.0	19.9	-	-
Right-of-use assets	31	18.8	-	-	-
Amounts receivable from customers	15	245.3	228.6	-	-
Deferred tax assets	14	151.7	138.5	1.3	-
Non-current tax assets	29	34.2	36.1	-	-
Retirement benefit asset	24	3.4	4.1	3.4	4.1
		<b>539.7</b>	489.7	<b>734.6</b>	732.2
<i>Current assets</i>					
Amounts receivable from customers	15	728.3	764.2	-	-
Derivative financial instruments	21	0.3	1.6	-	-
Cash and cash equivalents	16	37.4	46.6	0.2	0.1
Other receivables	17	16.9	18.9	635.6	667.4
Current tax assets		0.1	1.5	0.4	-
		<b>783.0</b>	832.8	<b>636.2</b>	667.5
<b>Total assets</b>		<b>1,322.7</b>	1,322.5	<b>1,370.8</b>	1,399.7
<b>Liabilities</b>					
<i>Current liabilities</i>					
Borrowings	19	(112.7)	(28.8)	(48.6)	(18.9)
Derivative financial instruments	21	(16.2)	(7.3)	-	(0.1)
Trade and other payables	18	(123.9)	(147.7)	(474.9)	(418.4)
Lease liabilities	31	(8.7)	-	-	-
Current tax liabilities		(30.3)	(25.8)	-	-
		<b>(291.8)</b>	(209.6)	<b>(523.5)</b>	(437.4)
<i>Non-current liabilities</i>					
Deferred tax liabilities	14	(20.0)	(10.4)	(0.7)	(0.1)
Borrowings	19	(563.7)	(669.5)	(455.4)	(510.3)
Lease liabilities	31	(10.8)	-	-	-
		<b>(594.5)</b>	(679.9)	<b>(456.1)</b>	(510.4)
<b>Total liabilities</b>		<b>(886.3)</b>	(889.5)	<b>(979.6)</b>	(947.8)
<b>Net assets</b>		<b>436.4</b>	433.0	<b>391.2</b>	451.9
<b>Equity attributable to owners of the Company</b>					
Called-up share capital	26	23.4	23.4	23.4	23.4
Other reserve		(22.5)	(22.5)	226.3	226.3
Foreign exchange reserve		9.1	51.3	-	-
Hedging reserve		(0.1)	(0.6)	-	0.1
Own shares		(46.1)	(45.1)	(46.1)	(45.1)
Capital redemption reserve		2.3	2.3	2.3	2.3
Retained earnings		470.3	424.2	185.3	244.9
<b>Total equity</b>		<b>436.4</b>	433.0	<b>391.2</b>	451.9

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.

The loss after taxation of the Parent Company for the period was £33.9 million (2018: loss of £32.3 million).

The Financial Statements of International Personal Finance plc, registration number 6018973 comprising the consolidated income statement, statements of comprehensive income, balance sheets, statements of changes in equity, cash flow statements, accounting policies and notes 1 to 31 were approved by the Board on 26 February 2020 and were signed on its behalf by:

**Gerard Ryan**  
Chief Executive Officer

**Justin Lockwood**  
Chief Financial Officer

## Statements of changes in equity

Group – Attributable to owners of the Company	Notes	Called-up share capital £m	Other reserve £m	Foreign exchange reserve £m	Hedging reserve £m	Own shares £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 January 2018 as originally presented		23.4	(22.5)	60.0	(1.2)	(47.6)	2.3	482.5	496.9
Change in accounting policy		-	-	-	-	-	-	(107.4)	(107.4)
Restated at 1 January 2018		23.4	(22.5)	60.0	(1.2)	(47.6)	2.3	375.1	389.5
<i>Comprehensive income</i>									
Profit after taxation for the year		-	-	-	-	-	-	75.4	75.4
<i>Other comprehensive (expense)/income</i>									
Exchange losses on foreign currency translation		-	-	(8.7)	-	-	-	-	(8.7)
Net fair value gains – cash flow hedges		-	-	-	0.3	-	-	-	0.3
Actuarial gain on retirement benefit obligation	24	-	-	-	-	-	-	1.1	1.1
Tax credit/(charge) on other comprehensive income	5	-	-	-	0.3	-	-	(0.2)	0.1
Total other comprehensive (expense)/income		-	-	(8.7)	0.6	-	-	0.9	(7.2)
Total comprehensive (expense)/income for the year		-	-	(8.7)	0.6	-	-	76.3	68.2
<i>Transactions with owners</i>									
Share-based payment adjustment to reserves		-	-	-	-	-	-	3.0	3.0
Shares granted from treasury and employee trust		-	-	-	-	2.5	-	(2.5)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	-	(27.7)	(27.7)
At 31 December 2018		23.4	(22.5)	51.3	(0.6)	(45.1)	2.3	424.2	433.0
<b>At 1 January 2019</b>		<b>23.4</b>	<b>(22.5)</b>	<b>51.3</b>	<b>(0.6)</b>	<b>(45.1)</b>	<b>2.3</b>	<b>424.2</b>	<b>433.0</b>
<i>Comprehensive income</i>									
Profit after taxation for the year		-	-	-	-	-	-	71.8	71.8
<i>Other comprehensive (expense)/income</i>									
Exchange losses on foreign currency translation		-	-	(42.2)	-	-	-	-	(42.2)
Net fair value gains – cash flow hedges		-	-	-	0.6	-	-	-	0.6
Actuarial loss on retirement benefit obligation	24	-	-	-	-	-	-	(1.7)	(1.7)
Tax (charge)/credit on other comprehensive income	5	-	-	-	(0.1)	-	-	0.2	0.1
Total other comprehensive (expense)/income		-	-	(42.2)	0.5	-	-	(1.5)	(43.2)
Total comprehensive (expense)/income for the year		-	-	(42.2)	0.5	-	-	70.3	28.6
<i>Transactions with owners</i>									
Share-based payment adjustment to reserves		-	-	-	-	-	-	4.6	4.6
Shares acquired by employee trust		-	-	-	-	(2.1)	-	-	(2.1)
Shares granted from treasury and employee trust		-	-	-	-	1.1	-	(1.1)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	-	(27.7)	(27.7)
At 31 December 2019		23.4	(22.5)	9.1	(0.1)	(46.1)	2.3	470.3	436.4

Company – Attributable to owners of the Company	Notes	Called-up share capital £m	Other reserve £m	Hedging reserve £m	Own shares £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 January 2018		23.4	226.3	(0.8)	(47.6)	2.3	303.5	507.1
<i>Comprehensive income</i>								
Loss after taxation for the year		-	-	-	-	-	(32.3)	(32.3)
<i>Other comprehensive income/(expense)</i>								
Net fair value gains – cash flow hedges		-	-	1.0	-	-	-	1.0
Actuarial gains on retirement benefit obligation	24	-	-	-	-	-	1.1	1.1
Tax charge on other comprehensive income		-	-	(0.1)	-	-	(0.2)	(0.3)
Total other comprehensive income		-	-	0.9	-	-	0.9	1.8
Total comprehensive income/(expense) for the year		-	-	0.9	-	-	(31.4)	(30.5)
<i>Transactions with owners</i>								
Share-based payment adjustment to reserves		-	-	-	-	-	3.0	3.0
Shares granted from treasury and employee trust		-	-	-	2.5	-	(2.5)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	(27.7)	(27.7)
At 31 December 2018		23.4	226.3	0.1	(45.1)	2.3	244.9	451.9
<b>At 1 January 2019</b>		<b>23.4</b>	<b>226.3</b>	<b>0.1</b>	<b>(45.1)</b>	<b>2.3</b>	<b>244.9</b>	<b>451.9</b>
<i>Comprehensive income</i>								
Loss after taxation for the year		-	-	-	-	-	(33.9)	(33.9)
<i>Other comprehensive (expense)/income</i>								
Net fair value losses – cash flow hedges		-	-	(0.1)	-	-	-	(0.1)
Actuarial loss on retirement benefit obligation	24	-	-	-	-	-	(1.7)	(1.7)
Tax credit on other comprehensive income		-	-	-	-	-	0.2	0.2
Total other comprehensive expense		-	-	(0.1)	-	-	(1.5)	(1.6)
Total comprehensive expense for the year		-	-	(0.1)	-	-	(35.4)	(35.5)
<i>Transactions with owners</i>								
Share-based payment adjustment to reserves		-	-	-	-	-	4.6	4.6
Shares acquired by employee trust		-	-	-	(2.1)	-	-	(2.1)
Shares granted from treasury and employee trust		-	-	-	1.1	-	(1.1)	-
Dividends paid to Company shareholders	7	-	-	-	-	-	(27.7)	(27.7)
<b>At 31 December 2019</b>		<b>23.4</b>	<b>226.3</b>	<b>-</b>	<b>(46.1)</b>	<b>2.3</b>	<b>185.3</b>	<b>391.2</b>

The other reserve represents the difference between the nominal value of the shares issued when the Company became listed on 16 July 2007 and the fair value of the subsidiary companies acquired in exchange for this share capital.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company income statement.

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.

Cash flow statements  
for the year ended 31 December

	Notes	Group		Company	
		2019 £m	2018 £m	2019 £m	2018 £m
<i>Cash flows from operating activities</i>					
Cash generated from operating activities	27	169.2	141.6	81.1	97.7
Finance costs paid		(64.0)	(59.6)	(59.9)	(58.4)
Finance income received		-	-	34.9	37.9
Income tax paid		(41.0)	(21.8)	(1.7)	(1.6)
<b>Net cash generated from operating activities</b>		<b>64.2</b>	<b>60.2</b>	<b>54.4</b>	<b>75.6</b>
<i>Cash flows from investing activities</i>					
Purchases of property, plant and equipment	13	(10.2)	(6.7)	-	-
Proceeds from sale of property, plant and equipment		0.2	0.3	-	-
Purchases of intangible assets	11	(21.2)	(19.3)	-	-
<b>Net cash used in investing activities</b>		<b>(31.2)</b>	<b>(25.7)</b>	<b>-</b>	<b>-</b>
<b>Net cash generated from operating and investing activities</b>		<b>33.0</b>	<b>34.5</b>	<b>54.4</b>	<b>75.6</b>
<i>Cash flows from financing activities</i>					
Proceeds from borrowings		119.9	101.9	79.2	32.3
Repayment of borrowings		(120.3)	(89.7)	(103.7)	(80.1)
Principal elements of lease payments		(9.9)	-	-	-
Dividends paid to Company shareholders	7	(27.7)	(27.7)	(27.7)	(27.7)
Shares acquired by employee trust		(2.1)	-	(2.1)	-
<b>Net cash used in financing activities</b>		<b>(40.1)</b>	<b>(15.5)</b>	<b>(54.3)</b>	<b>(75.5)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(7.1)</b>	<b>19.0</b>	<b>0.1</b>	<b>0.1</b>
Cash and cash equivalents at beginning of year		46.6	27.4	0.1	-
Exchange (losses)/gains on cash and cash equivalents		(2.1)	0.2	-	-
<b>Cash and cash equivalents at end of year</b>	16	<b>37.4</b>	<b>46.6</b>	<b>0.2</b>	<b>0.1</b>
Cash and cash equivalents at end of year comprise:					
Cash at bank and in hand	16	37.4	46.6	0.2	0.1

The accounting policies and notes 1 to 31 are an integral part of these Financial Statements.

## General information

International Personal Finance plc (the Company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the registered office is shown on the back cover of this Annual Report and Financial Statements.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic Report on page 2.

These Financial Statements are presented in sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are set out in accordance with the policies set out on page 125.

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 amendment to standards is mandatory for the first time for the financial year beginning 1 January 2019 but does not have any material impact on the Group:

- Amendments to IAS19 Employee Benefits – 'Plan amendment, curtailment or settlement';
- IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'.

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

- IFRS 17 'Insurance contracts';
- Amendments to IFRS 3 'Definition of a Business';
- Amendments to IAS 1 and IAS 8 'Definition of Material';
- Amendments to IAS 39 'Pre-replacement issues in the context of the IBOR reform'; and
- Conceptual framework 'Amendments to References to the Conceptual Framework in IFRS Standards'.

### IFRS 16 'Leases'

The Group has adopted IFRS 16 for the first time in 2019, for more information see note 31.

### IFRIC 23 'Uncertainty over Income Tax Treatments'

The Group has adopted IFRIC 23 for the first time in 2019. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a group; and to assess whether it is probable that a tax authority will accept an uncertain tax treatment used/proposed by the entity in its income tax filings. If this is deemed to be the case, the Group should determine its accounting tax position with the treatment used/proposed in its income tax filings. If this is not deemed to be the case, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

## Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures, 'APMs' which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

Each of the APMs, used by the Group are set out on pages 156-160 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, after restating prior year figures at a constant exchange rate. The constant exchange rate, which is an APM, retranslates the previous year measures at the average actual periodic exchange rates used in the current financial year. These measures are presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory measures in order to derive APMs where relevant. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group.

## Basis of preparation

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 43.

## Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and the entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group companies are eliminated on consolidation.

The accounting policies of the subsidiaries are consistent with the accounting policies of the Group.

## Finance costs

Finance costs comprise the interest on external borrowings which are recognised on an effective interest rate ('EIR') basis, and gains or losses on derivative contracts taken to the income statement. Finance costs also include interest expenses on lease liabilities as required under IFRS 16.

## Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board. This information is by business line – European home credit, Mexico home credit and IPF Digital. A business line is a component of the Group that operates within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

## Revenue

Revenue, which excludes value added tax and intra-Group transactions, comprises revenue earned on amounts receivable from customers. Revenue on customer receivables is calculated using an effective interest rate ('EIR'). All fees, being interest and non-interest fees are included within the EIR calculation. The EIR is calculated reflecting all contractual terms using estimated cash flows, being contractual payments adjusted for the impact of customers paying early.

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

Commissions in respect of insurance products intermediated by the Group are recognised when the underlying insurance is sold (alongside a loan agreement) if no further service obligations are identified. These commission amounts do not make up a significant part of the revenue of the Group. The insurance premium payable by the customer is capitalised alongside the customer loan receivable and both are accounted for on an amortised cost basis.

The accounting for amounts receivable from customers is considered further below.

## 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 at the grant date, which is determined using both a Monte Carlo simulation and Black-Scholes option pricing model.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

In the Parent Company Financial Statements, the fair value of providing share-based payments to employees of subsidiary companies is treated as an increase in the investment in subsidiaries.



## Financial instruments

### Classification and measurement

Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income (FVTOCI) and (iii) fair value through profit or loss (FVTPL). Equity instruments in the scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income.

There is no impact on the classification and measurement of the following financial assets held by the Group: derivative financial instruments; cash and cash equivalents; other receivables and current tax assets.

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

### Hedge accounting

On initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The Group has elected to apply the IAS 39 hedge accounting requirements.

### Amounts receivable from customers

Amounts receivable from customers are measured at amortised cost under IFRS 9.

### Impairment

The impairment model under IFRS 9 reflects expected credit losses. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date. The new impairment model will apply to the Group's financial assets that are measured at amortised cost, namely amounts receivable from customers.

### Forward-looking information

Under IFRS 9 macroeconomic overlays are required to include forward-looking information when calculating expected credit losses. The short-term nature of our lending means that the portfolio turns over quickly, and as a result, any changes in the macroeconomic environment will have very little impact on our amounts receivable from customers.

Where extreme macroeconomic scenarios are experienced, we will use management judgement to identify, quantify and apply any required approach.

We have calculated PD, EAD, LGD and cash flow projections based on the most recent collections performance, including management overlays where we deem that historic performance is not representative of future collections performance.

In some markets, the most recent impairment parameters are not considered to be representative of expected future performance due to changes in operational performance. Therefore an overlay has been applied to increase certain parameters at both 31 December 2018 and 31 December 2019.

### Other receivables

Every year we will assess other receivables, including amounts due from Group undertakings, for any evidence of impairment.

### 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 and we do not expect there to be any sources of hedge ineffectiveness.

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

Goodwill is not amortised but is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Impairment is tested by comparing the carrying value of goodwill to the net present value of latest forecast cash flows from the legacy MCB Finance business cash generating unit. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

## Intangible assets

Intangible assets comprise computer software. 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.

Intangible assets are amortised (within administrative expenses) on a straight-line basis over their estimated useful economic lives which are generally estimated to be five years. The residual values and economic lives are reviewed by management at each balance sheet date, and any shortfall recognised as impairment.

## Investments in subsidiaries

Investments in subsidiaries are stated at cost, where cost is equal to the fair value of the consideration used to acquire the asset. Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the investment carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

## Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost represents invoiced cost plus any other costs that are attributable directly to the acquisition of the items. Repair and maintenance costs are expensed as incurred.

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

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

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

## Share capital

International Personal Finance plc has only ordinary share capital. These shares, with a nominal value of 10 pence per share, are classified as equity.

## Shares held in treasury and by employee trust

The net amount paid to acquire shares is held in a separate reserve and shown as a reduction in equity.

## Foreign currency translation

Items included in the Financial Statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency'). The Group's financial information is presented in sterling.

Transactions that are not denominated in an entity's functional currency are recorded at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the rates of exchange ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

The income statements of the Group's subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from sterling are translated into sterling at the average exchange rate and the balance sheets are translated at the exchange rates ruling at each balance sheet date.

Upon consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

## Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 assets and liabilities 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 offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## Employee benefits

### Defined benefit pension scheme

The charge or credit in the income statement in respect of the defined benefit pension scheme comprises the actuarially assessed current service cost of working employees together with the interest charge on pension liabilities offset by the expected return on pension scheme assets. As there are no working employees that are members of the defined benefit pension scheme, there are no current service costs. All charges or credits are allocated to administrative expenses.

The asset or obligation recognised in the balance sheet in respect of the defined benefit pension scheme is the fair value of the scheme's assets less the present value of the defined benefit obligation at the balance sheet date.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income.

The Parent Company share of the defined benefit retirement obligation is based on the proportion of total Group contributions made by the Parent Company.

### Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

## Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

### Key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make estimations that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

### Revenue recognition

The estimate used in respect of revenue recognition is the methodology used to calculate the EIR. In order to determine the EIR applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based on historical data and are reviewed regularly. Based on a 3% variation in the EIR, it is estimated that the amounts receivable from customers would be higher/lower by £12.1 million (2018: £12.1 million). This sensitivity is based on historic fluctuations in EIRs.

### Amounts receivable from customers

The Group reviews its portfolio of customer loans and receivables for impairment on a weekly or monthly basis. The Group reviews the most recent collections performance to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows.

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

The impairment models are monitored regularly to test their continued capability to predict the timing and quantum of customer repayments in the context of the current economic environment and recent customer payment performance. The models used typically have a strong predictive capability reflecting the relatively stable nature of the business and therefore the actual performance does not usually vary significantly from the estimated performance. The models are updated periodically, at least twice per year. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating expected losses and the future cash flows, an adjustment to the amounts receivable from customers may be required.

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

	Receivables impact £m	Amounts receivable from customers £m
European home credit	4.1	571.2
Mexico home credit	1.4	150.2
Digital	1.2	252.2
Group	6.7	973.6

Based on historic movements in probability of default parameters, variation in parameters are not material to amounts receivable from customers.

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

### Polish early settlement rebates

The Chief Executive Officer's review on page 19 sets out details of a comprehensive review being conducted by UOKiK, the Polish competition and consumer protection authority, of rebating practices by banks and other consumer credit providers on early loan settlement, including those of the Group's Polish businesses. We reviewed the likelihood of the resolution of this matter resulting in higher early settlement rebates being payable to customers that settled their agreements early before the balance sheet date. The total amount provided of £4 million (included in other payables) represents the Group's best estimate of the likely future cost of increasing historic customer rebates, based on its current strategy to achieve resolution. However, a number of risks and uncertainties remain in particular with respect to future claims volumes relating to historic rebates paid, the nature of any customer contact exercise required and the methodology used to calculate any additional early settlement rebates. The volumes could differ from the Group's estimates (which are calculated with reference to Group's previous experience of claims relating to one-off regulatory matters), resulting in a further charge or release being required. If the volume of claims were double the level that represents the Group's estimate of future volumes, the Group would expect an additional charge of approximately £4 million. Based on past experience, the Group's expectation at this stage is that claims rates are unlikely to be more than double the assumed rate.

### Investment in subsidiaries

During the year, as a result of the Group net asset position and the market capitalisation of the Company being lower than the carrying value of the investment in subsidiaries, we carried out a review of the recoverable amount of the carrying value of the investment. This review entails comparing the investments value to the net present value of latest forecast cash flows from the operating businesses. This review confirmed that no impairment of the investment is required.

### Tax

Estimations must be exercised in the calculation of the Group's tax provision, in particular with regard to the existence and extent of tax risks. This exercise of estimation with regards to the ongoing Polish tax audits and the EU State Aid investigation, which are disclosed in note 29, could have a significant effect on the Financial Statements, as there are significant uncertainties in relation to the amount and timing of associated cash flows.

In respect of deferred tax assets, which arise largely from timing differences between the accounting and tax treatments of revenue and impairment transactions, estimations must be made regarding the extent to which the timing differences will reverse and a tax deduction will be obtained in future periods.

### Critical accounting judgements

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

## 1. Segment analysis

Group	Revenue		Impairment		Profit before taxation	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
European home credit	452.2	493.3	56.0	88.5	115.1	113.8
Mexico home credit	247.6	226.1	102.3	82.9	10.5	15.7
Digital	189.3	147.0	85.2	55.6	3.2	(5.6)
UK costs*	-	-	-	-	(14.8)	(14.6)
<b>Total</b>	<b>889.1</b>	<b>866.4</b>	<b>243.5</b>	<b>227.0</b>	<b>114.0</b>	<b>109.3</b>

\* Although UK costs are not classified as a separate segment in accordance with IFRS 8 'Operating segments', they are shown separately above in order to provide a reconciliation to profit before taxation.

Group	Segment assets		Segment liabilities	
	2019 £m	2018 £m	2019 £m	2018 £m
European home credit	710.0	699.8	297.2	327.7
Mexico home credit	230.3	241.7	147.0	144.8
Digital	314.9	310.2	225.8	224.7
Slovakia and Lithuania	-	0.3	-	5.3
UK	67.5	70.5	216.3	187.0
<b>Total</b>	<b>1,322.7</b>	<b>1,322.5</b>	<b>886.3</b>	<b>889.5</b>

Group	Capital expenditure		Depreciation	
	2019 £m	2018 £m	2019 £m	2018 £m
European home credit	7.5	4.1	5.4	5.0
Mexico home credit	1.8	1.7	2.1	2.2
Digital	0.9	0.9	0.4	0.6
UK	-	-	0.6	1.4
<b>Total</b>	<b>10.2</b>	<b>6.7</b>	<b>8.5</b>	<b>9.2</b>

Group	Expenditure on intangible assets		Amortisation	
	2019 £m	2018 £m	2019 £m	2018 £m
European home credit	-	-	-	-
Mexico home credit	-	-	-	-
Digital	12.8	10.5	5.7	4.6
UK	8.4	8.8	9.1	9.9
<b>Total</b>	<b>21.2</b>	<b>19.3</b>	<b>14.8</b>	<b>14.5</b>

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 £889.1 million (2018: £866.4 million) and the breakdown by segment is disclosed above.

As set out in the accounting policy note, the receivables portfolio is valued based on expected cash flows discounted at the effective interest rate.

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is £27.1 million (2018: £27.3 million), and the total of non-current assets located in other countries is £360.9 million (2018: £323.9 million).

There is no single external customer from which significant revenue is generated.

The segments shown above are the segments for which management information is presented to the Board, which is deemed to be the Group's chief operating decision maker.

## 2. Finance costs

Group	2019 £m	2018 £m
Interest payable on borrowings and lease liabilities	63.5	58.5



### 3. Profit before taxation

Profit before taxation is stated after charging:

Group	2019 £m	2018 £m
Depreciation of property, plant and equipment (note 13)	8.5	9.2
Depreciation of right-of-use assets (note 31)	9.1	–
Loss on disposal of property, plant and equipment	0.5	0.5
Amortisation of intangible assets (note 11)	14.8	14.5
Employee costs (note 9)	200.9	192.9

### 4. Auditor's remuneration

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

Group	2019 £m	2018 £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	0.8	0.6
– other assurance services	0.1	0.1

Further details on auditor remuneration can be found in the Audit and Risk Committee Report on page 80.

### 5. Tax expense

Group	2019 £m	2018 £m
Current tax expense	49.7	44.3
Deferred tax (income)/expense (note 14)		
– current year	(4.7)	(12.0)
– prior year	(2.8)	1.6
	(7.5)	(10.4)
<b>Tax expense</b>	<b>42.2</b>	<b>33.9</b>

Further information regarding the deferred tax (income)/expense is shown in note 14, and primarily relates to timing differences in respect of revenue and impairment.

Group	2019 £m	2018 £m
<i>Tax (charge)/credit on other comprehensive income</i>		
Deferred tax (charge)/credit on net fair value gains/losses – cash flow hedges	(0.1)	0.3
Deferred tax credit/(charge) on actuarial losses/gains on retirement benefit asset	0.2	(0.2)
	0.1	0.1

The rate of tax expense on the profit before taxation for the year ended 31 December 2019 is higher than (2018: higher than) the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained as follows:

Group	2019 £m	2018 £m
Profit before taxation	114.0	109.3
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	21.7	20.8
Effects of:		
– adjustment in respect of prior years	2.8	1.6
– adjustment in respect of foreign tax rates	1.0	1.4
– non-deductible bad debt expense	16.6	7.5
– other expenses not deductible for tax purposes	0.2	2.8
– change in unrecognised deferred tax assets	(0.1)	(0.2)
<b>Total tax expense</b>	<b>42.2</b>	<b>33.9</b>

The Group is currently subject to a tax audit with respect to Provident Polska for the years 2008 and 2009. Decisions were received in January 2017 and have been appealed. Audits of years 2010 – 2012 were closed during the year. Further details are set out in note 29.

The Group is also subject to audits in Mexico (regarding 2017), Finland (2018 – 2019), Spain (2015 – 2017) and Hungary (2017 – 2018). An audit of Slovakia (2015) was closed during the year.

## 6. Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the earnings attributable to shareholders of £71.8 million (2018: £75.4 million) by the weighted average number of shares in issue during the period of 223.1 million (2018: 223.0 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	2019 £m	2018 £m
Used in basic EPS calculation	223.1	223.0
Dilutive effect of awards	14.0	11.1
<b>Used in diluted EPS calculation</b>	<b>237.1</b>	<b>234.1</b>

Basic and diluted EPS are presented below:

Group	2019 pence	2018 pence
Basic EPS	32.2	33.8
Dilutive effect of awards	(1.9)	(1.6)
<b>Diluted EPS</b>	<b>30.3</b>	<b>32.2</b>

## 7. Dividends

Group and Company	2019 £m	2018 £m
Interim dividend of 4.6 pence per share (2018: interim dividend of 4.6 pence per share)	10.3	10.3
Final 2018 dividend of 7.8 pence per share (2018: final 2017 dividend of 7.8 pence per share)	17.4	17.4
	<b>27.7</b>	<b>27.7</b>

The directors are recommending a final dividend in respect of the financial year ended 31 December 2019 of 7.8 pence per share which will amount to a full-year dividend payment of £27.6 million. If approved by the shareholders at the annual general meeting ('AGM'), this dividend will be paid on 11 May 2020 to shareholders who are on the register of members at 14 April 2020. This dividend is not reflected as a liability in the balance sheet as at 31 December 2019 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.

	2019 £m	2018 £m
Short-term employee benefits	4.3	4.4
Post-employment benefits	0.1	0.1
Share-based payments	0.2	0.1
<b>Total</b>	<b>4.6</b>	<b>4.6</b>

Short-term employee benefits comprise salary/fees and benefits earned in the year.

Post-employment benefits represent the sum of (i) Group contributions into personal pension arrangements; and (ii) contributions into the Group's stakeholder scheme.

For gains arising on executive directors' share options see page 105.

Disclosures in respect of the Group's directors are included in the Directors' Remuneration Report.

## 9. Employee information

The average full-time equivalent of people employed by the Group (including executive directors) was as follows:

Group	2019 Number	2018 Number
Full-time*	7,246	7,127
Part-time**	1,726	1,894
	<b>8,972</b>	9,021

\* Includes 667 agents in Hungary and Romania (2018: includes 716 agents in Hungary and Romania).

\*\* Includes 1,416 agents in Hungary and Romania (2018: includes 1,595 agents in Hungary and Romania).

Agents are self-employed other than in Hungary and Romania where they are required by legislation to be employed.

The average number of employees by category was as follows:

Group	2019 Number	2018 Number
Operations	5,183	5,365
Administration	743	831
Head office and loss prevention	3,046	2,825
	<b>8,972</b>	9,021

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

Group	2019 £m	2018 £m
Gross wages and salaries	167.4	161.5
Social security costs	30.2	29.5
Pension charge – defined contribution schemes (note 24)	0.9	0.8
Share-based payment charge (note 25)	2.4	1.1
<b>Total</b>	<b>200.9</b>	192.9

## 10. Goodwill

Group	2019 £m	2018 £m
<i>Net book value</i>		
At 1 January	24.5	24.4
Exchange adjustments	(1.4)	0.1
<b>At 31 December</b>	<b>23.1</b>	24.5

Goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. We adopt discount rates which reflect the time value of money and the risks specific to the legacy MCB business. The cash flow forecasts are based on the most recent financial budgets approved by the Board. The rate used to discount the forecast cash flows is 9% (2018: 10%). No reasonably foreseeable reduction in the assumptions would give rise to impairment, and therefore no further sensitivity analysis has been presented.

## 11. Intangible assets

Group	2019 £m	2018 £m
<i>Net book value</i>		
At 1 January	38.0	33.1
Additions	21.2	19.3
Amortisation	(14.8)	(14.5)
Exchange adjustments	(1.2)	0.1
<b>At 31 December</b>	<b>43.2</b>	38.0
Analysed as:		
– cost	124.3	105.0
– amortisation	(81.1)	(67.0)
<b>At 31 December</b>	<b>43.2</b>	38.0

Intangible assets comprise computer software.

The Company has no intangible assets.

## 12. Investment in subsidiaries

Company	2019 £m	2018 £m
Investment in subsidiaries	712.3	712.3
Share-based payment adjustment	17.6	15.8
	<b>729.9</b>	<b>728.1</b>

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. On 6 February 2015 the Group acquired 100% of the issued share capital of MCB Finance Group plc ('MCB') for a cash consideration of £23.2 million. Subsequent to this, during 2017, a further £25.5m investment was made in these acquired businesses.

A further £17.6 million (2018: £15.8 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.

During the year, as a result of the Group net asset position and the market capitalisation of the Company being lower than the carrying value of the investment in subsidiaries, we carried out a review of the recoverable amount of the carrying value of the investment. This review confirmed that no impairment of the investment is required.

The subsidiary companies of IPF plc, which are 100% owned by the Group and included in these Consolidated Financial Statements, are detailed below:

Subsidiary company	Country of incorporation and operation	Principal activity
International Credit Insurance Limited	Guernsey	Provision of services
International Personal Finance Digital Spain S.A.U.	Spain	Digital credit
International Personal Finance Investments Limited	United Kingdom	Holding company
IPF Česká republika s.r.o.	Czech Republic	Non-trading
IPF Development (2003) Limited	United Kingdom	Provision of services
IPF Digital AS	Estonia	Provision of services
IPF Digital Australia Pty Limited	Australia	Digital credit
IPF Digital Estonia OÜ	Estonia	Digital credit
IPF Digital Finland Oy	Finland	Digital credit
IPF Digital Group Limited	United Kingdom	Holding company
IPF Digital Latvia, SIA	Latvia	Digital credit
IPF Digital Lietuva, UAB	Lithuania	Digital credit
IPF Digital Mexico S.A de C.V.	Mexico	Digital credit
IPF Financial Services Limited	United Kingdom	Provision of services
IPF Financing Limited	United Kingdom	Provision of services
IPF Guernsey (2) Limited	Guernsey	Dormant
IPF Holdings Limited	United Kingdom	Holding company
IPF International Limited	United Kingdom	Provision of services
IPF Investments Polska sp. z o.o.	Poland	Provision of services
IPF Management	Ireland	Provision of services
IPF Nordic Limited	United Kingdom	Provision of services
IPF Polska sp. z o.o.	Poland	Digital credit
PF (Netherlands) B.V.	Netherlands	Provision of services
Provident Agent De Asiguraa srl	Romania	Dormant
Provident Financial Romania IFN S.A.	Romania	Home credit
Provident Financial s.r.o.	Czech Republic	Home credit
Provident Financial Zrt.	Hungary	Home credit
Provident Mexico S.A. de C.V.	Mexico	Home credit
Provident Polska S.A.	Poland	Home credit
Provident Polska sp. z o.o.	Poland	Non-trading
Provident Servicios de Agencia S.A. de C.V.	Mexico	Provision of services
Provident Servicios S.A. de C.V.	Mexico	Provision of services

All UK subsidiaries are registered at the same registered office as the Company, and this address is shown on the back cover of this Annual Report and Financial Statements.

### 13. Property, plant and equipment

Group	Computer equipment £m	Fixtures and fittings £m	Motor vehicles £m	Total £m
<i>Cost</i>				
At 1 January 2019	78.1	25.8	3.3	107.2
Exchange adjustments	(2.2)	(0.9)	(0.3)	(3.4)
Additions	6.8	3.4	-	10.2
Disposals	(1.9)	(2.1)	(0.4)	(4.4)
<b>At 31 December 2019</b>	<b>80.8</b>	<b>26.2</b>	<b>2.6</b>	<b>109.6</b>
<i>Depreciation</i>				
At 1 January 2019	(66.2)	(19.4)	(1.7)	(87.3)
Exchange adjustments	1.6	0.7	0.2	2.5
Charge to the income statement	(5.9)	(2.3)	(0.3)	(8.5)
Disposals	1.5	1.8	0.4	3.7
<b>At 31 December 2019</b>	<b>(69.0)</b>	<b>(19.2)</b>	<b>(1.4)</b>	<b>(89.6)</b>
<b>Net book value at 31 December 2019</b>	<b>11.8</b>	<b>7.0</b>	<b>1.2</b>	<b>20.0</b>
Net book value at 31 December 2018	11.9	6.4	1.6	19.9

The Company has property, plant and equipment with a cost of £1.0 million (2018: £1.0 million); depreciation of £1.0 million (2018: £1.0 million); and a net book value of £nil (2018: £nil). All of these assets are computer equipment.

### 14. 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	
	2019 £m	2018 £m	2019 £m	2018 £m
At 1 January as originally presented	128.1	93.0	(0.1)	0.1
Change in accounting policy	-	23.1	-	-
Restated at 1 January	128.1	116.1	(0.1)	0.1
Exchange adjustments	(4.0)	1.5	-	-
Tax credit to the income statement	7.5	10.4	0.5	0.1
Tax credit/(charge) on other comprehensive income	0.1	0.1	0.2	(0.3)
<b>At 31 December</b>	<b>131.7</b>	<b>128.1</b>	<b>0.6</b>	<b>(0.1)</b>

The Finance Act 2016, which was substantively enacted on 6 September 2016, included an amending provision to reduce the UK corporation tax rate to 17% with effect from 1 April 2020. The impact of this rate change has been reflected in the calculation of UK deferred tax assets and liabilities at 31 December 2019.

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	
	2019 £m	2018 £m	2019 £m	2018 £m
Deferred tax assets	151.7	138.5	1.3	-
Deferred tax liabilities	(20.0)	(10.4)	(0.7)	(0.1)
<b>At 31 December</b>	<b>131.7</b>	<b>128.1</b>	<b>0.6</b>	<b>(0.1)</b>

**14. Deferred tax** continued

	Group				Company		
	Losses £m	Revenue and impairment differences £m	Other temporary differences £m	Total £m	Retirement benefit obligations £m	Other temporary differences £m	Total £m
At 1 January 2018 as originally presented	7.8	77.2	8.0	93.0	(0.4)	0.5	0.1
Change in accounting policy	-	23.1	-	23.1	-	-	-
Restated 1 January 2018	7.8	100.3	8.0	116.1	(0.4)	0.5	0.1
Exchange adjustments	-	1.0	0.5	1.5	-	-	-
Tax credit/(charge) to the income statement	1.6	17.2	(8.4)	10.4	(0.3)	0.4	0.1
Tax credit/(charge) on items taken directly to equity	-	-	0.1	0.1	(0.1)	(0.2)	(0.3)
At 31 December 2018	9.4	118.5	0.2	128.1	(0.8)	0.7	(0.1)
<b>At 1 January 2019</b>	<b>9.4</b>	<b>118.5</b>	<b>0.2</b>	<b>128.1</b>	<b>(0.8)</b>	<b>0.7</b>	<b>(0.1)</b>
Exchange adjustments	(0.4)	(3.9)	0.3	(4.0)	-	-	-
Tax credit/(charge) to the income statement	1.7	6.0	(0.2)	7.5	(0.1)	0.6	0.5
Tax credit on items taken directly to equity	-	-	0.1	0.1	0.2	-	0.2
<b>At 31 December 2019</b>	<b>10.7</b>	<b>120.6</b>	<b>0.4</b>	<b>131.7</b>	<b>(0.7)</b>	<b>1.3</b>	<b>0.6</b>

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 2019, the Group has unused tax losses of £59.2 million (2018: £52.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £37.3 million (2018: £35.0 million) of these losses where profit projections indicate the existence of sufficient taxable profits to support the recognition of the asset. No deferred tax has been recognised in respect of the remaining £21.9 million (2018: £17.7 million) as it is not considered probable that there will be future taxable profits available against which these losses can be offset. None of the unrecognised losses are subject to an expiry date.

At 31 December 2019, there is £nil (2018: £nil) amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised.

**15. Amounts receivable from customers**

Group	2019 £m	2018 £m
Amounts receivable from customers comprise:		
- amounts due within one year	728.3	764.2
- amounts due in more than one year	245.3	228.6
	<b>973.6</b>	<b>992.8</b>

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	2019 £m	2018 £m
Polish zloty	339.7	353.0
Czech crown	68.6	66.0
Euro	178.2	179.1
Hungarian forint	135.6	128.3
Mexican peso	158.1	176.4
Romanian leu	70.3	74.4
Australian dollar	23.1	15.6
	<b>973.6</b>	<b>992.8</b>

Amounts receivable from customers are stated at amortised cost and calculated in accordance with the Group's accounting policies. Depending on the risks associated with each loan, they are categorised into three stages where stage 3 is the highest risk.

**Determining an increase in credit risk since initial recognition**

IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1) and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

When determining whether the risk of default has increased significantly since initial recognition the Group considers both quantitative and qualitative information based on the Group's historical experience.

The approach to identifying significant increases in credit risk is consistent across the Group's products. In addition, as a backstop, the Group considers that a significant increase in credit risk occurs when an asset is more than 30 days past due.

Financial instruments are moved back to stage 1 once they no longer meet the criteria for a significant increase in credit risk.



## 15. Amounts receivable from customers continued

### Definition of default and credit impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- Quantitative criteria: the customer is more than 90 days past due on their contractual payments in home credit and 60 days past due on their contractual payments in IPF Digital; and
- Qualitative criteria: indication that there is a measurable movement in the estimated future cash flows from a group of financial assets. For example, if prospective legislative changes are considered to impact the collections performance of customers.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Group's expected credit loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

### Write-offs

A financial instrument is written off (in full or in part) when the Group judges there to be no reasonable expectation that the instrument can be recovered (in full or in part). This is typically the case when the Group determines that the customer is not able to generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is performed at the individual instrument level. The related impairment loss allowance is also written off once all the necessary procedures have been completed and the loss amount has crystallised. Financial instruments that are written off could still be subject to recovery activities and subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

The table below shows the amount of the net receivables in each stage at 31 December:

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total Net Receivables £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total Net Receivables £m
Home credit	448.8	85.7	186.9	721.4	460.6	90.0	192.2	742.8
IPF Digital	232.5	18.8	0.9	252.2	227.0	18.3	4.7	250.0
Group	681.3	104.5	187.8	973.6	687.6	108.3	196.9	992.8

### Gross carrying amount and loss allowance

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

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total Net Receivables £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total Net Receivables £m
Gross carrying amount	815.6	188.9	459.9	1,464.4	824.2	192.5	486.1	1,502.8
Loss allowance	(134.3)	(84.4)	(272.1)	(490.8)	(136.6)	(84.2)	(289.2)	(510.0)
Net receivables	681.3	104.5	187.8	973.6	687.6	108.3	196.9	992.8

### Gross carrying amount

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

- Credit issued in the period;
- Transfers between the three stages due to changes in the risk associated with each loan;
- Revenue recognised within the period;
- Recoveries from receivables; and
- Other movements to gross carrying amount and foreign exchange retranslations.

### Loss allowance

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

- Total impairment charge for the period, which comprises the following:
  - Loss allowance on credit issued;
  - Transfers between the three stages due to changes in the risk associated with each loan;
  - Changes in risk parameters (PDs, EADs, and LGDs) in the period arising from the regular refresh of the inputs into the expected loss model; and
  - Other impairment impact including the impact of movements in days past due within each stage, impairment impact of write-offs and post field write-off collections.
- Recoveries from receivables not included within impairment; and
- Other movements to the loss allowance and foreign exchange retranslations.

**15. Amounts receivable from customers** continued

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

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount – home credit								
Opening gross carrying amount at 1 January	571.8	164.4	448.6	1,184.8	575.1	157.7	434.4	1,167.2
Credit issued	1,019.5	-	-	1,019.5	1,048.8	-	-	1,048.8
Transfers between stages:	(360.6)	59.9	300.7	-	(414.0)	71.5	342.5	-
From stage 1	(377.8)	146.6	231.2	-	(426.7)	159.0	267.7	-
From stage 2	7.5	(87.6)	80.1	-	5.9	(88.4)	82.5	-
From stage 3	9.7	0.9	(10.6)	-	6.8	0.9	(7.7)	-
Revenue	411.7	90.2	197.9	699.8	418.1	87.8	213.5	719.4
Recoveries	(1,062.9)	(158.6)	(511.9)	(1,733.4)	(1,144.2)	(165.8)	(536.8)	(1,846.8)
Other movements	(24.3)	0.6	(4.6)	(28.3)	88.0	13.2	(5.0)	96.2
<b>Closing gross carrying amount at 31 December</b>	<b>555.2</b>	<b>156.5</b>	<b>430.7</b>	<b>1,142.4</b>	<b>571.8</b>	<b>164.4</b>	<b>448.6</b>	<b>1,184.8</b>

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance – home credit								
Opening loss allowance at 1 January	(111.2)	(74.4)	(256.4)	(442.0)	(108.8)	(70.3)	(242.1)	(421.2)
Loss allowance on credit issued	(111.1)	-	-	(111.1)	(120.6)	-	-	(120.6)
Transfers between stages:	113.0	(12.0)	(101.0)	-	135.0	(17.6)	(117.4)	-
From stage 1	120.8	(45.6)	(75.2)	-	139.2	(50.3)	(88.9)	-
From stage 2	(2.6)	33.9	(31.3)	-	(1.9)	32.9	(31.0)	-
From stage 3	(5.2)	(0.3)	5.5	-	(2.3)	(0.2)	2.5	-
Change in risk parameters	(0.7)	(0.2)	(2.3)	(3.2)	0.7	(0.5)	(2.2)	(2.0)
Other impairment	(67.6)	(21.2)	44.8	(44.0)	(79.8)	(16.8)	47.8	(48.8)
Total impairment	(66.4)	(33.4)	(58.5)	(158.3)	(64.7)	(34.9)	(71.8)	(171.4)
Recoveries	63.0	35.9	61.9	160.8	58.0	30.0	55.9	143.9
Other movements	8.2	1.1	9.2	18.5	4.3	0.8	1.6	6.7
<b>Closing loss allowance at 31 December</b>	<b>(106.4)</b>	<b>(70.8)</b>	<b>(243.8)</b>	<b>(421.0)</b>	<b>(111.2)</b>	<b>(74.4)</b>	<b>(256.4)</b>	<b>(442.0)</b>

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Net receivables – home credit								
Opening net receivables at 1 January	460.6	90.0	192.2	742.8	466.3	87.4	192.3	746.0
Credit issued	1,019.5	-	-	1,019.5	1,048.8	-	-	1,048.8
Transfers between stages:	(360.6)	59.9	300.7	-	(414.0)	71.5	342.5	-
From stage 1	(377.8)	146.6	231.2	-	(426.7)	159.0	267.7	-
From stage 2	7.5	(87.6)	80.1	-	5.9	(88.4)	82.5	-
From stage 3	9.7	0.9	(10.6)	-	6.8	0.9	(7.7)	-
Revenue	411.7	90.2	197.9	699.8	418.1	87.8	213.5	719.4
Impairment	(66.4)	(33.4)	(58.5)	(158.3)	(64.7)	(34.9)	(71.8)	(171.4)
Recoveries	(999.9)	(122.7)	(450.0)	(1,572.6)	(1,086.2)	(135.8)	(480.9)	(1,702.9)
Other movements	(16.1)	1.7	4.6	(9.8)	92.3	14.0	(3.4)	102.9
<b>Closing net receivables at 31 December</b>	<b>448.8</b>	<b>85.7</b>	<b>186.9</b>	<b>721.4</b>	<b>460.6</b>	<b>90.0</b>	<b>192.2</b>	<b>742.8</b>

## 15. Amounts receivable from customers continued

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

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount – IPF Digital								
Opening gross carrying amount at 1 January	252.4	28.1	37.5	318.0	178.2	20.9	36.9	236.0
Credit issued	333.5	-	-	333.5	311.8	-	-	311.8
Transfers between stages:	(101.1)	(3.5)	104.6	-	(80.1)	3.9	76.2	-
From stage 1	(181.2)	179.4	1.8	-	(134.1)	127.1	7.0	-
From stage 2	78.2	(185.1)	106.9	-	52.5	(124.1)	71.6	-
From stage 3	1.9	2.2	(4.1)	-	1.5	0.9	(2.4)	-
Revenue	161.8	17.9	9.6	189.3	128.3	11.9	6.8	147.0
Recoveries	(371.9)	(8.5)	(120.1)	(500.5)	(285.5)	(8.5)	(82.3)	(376.3)
Other movements	(14.3)	(1.6)	(2.4)	(18.3)	(0.3)	(0.1)	(0.1)	(0.5)
<b>Closing gross carrying amount at 31 December</b>	<b>260.4</b>	<b>32.4</b>	<b>29.2</b>	<b>322.0</b>	<b>252.4</b>	<b>28.1</b>	<b>37.5</b>	<b>318.0</b>

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loss allowance – IPF Digital								
Opening loss allowance at 1 January	(25.4)	(9.8)	(32.8)	(68.0)	(17.0)	(6.9)	(31.7)	(55.6)
Loss allowance on credit issued	(32.9)	-	-	(32.9)	(37.0)	-	-	(37.0)
Transfers between stages:	(1.2)	55.2	(54.0)	-	0.3	34.2	(34.5)	-
From stage 1	25.0	(24.7)	(0.3)	-	17.2	(15.8)	(1.4)	-
From stage 2	(25.0)	81.0	(56.0)	-	(15.7)	50.6	(34.9)	-
From stage 3	(1.2)	(1.1)	2.3	-	(1.2)	(0.6)	1.8	-
Change in risk parameters	(1.1)	(0.2)	(1.3)	(2.6)	2.5	0.4	1.6	4.5
Other impairment	33.5	(58.1)	(25.1)	(49.7)	25.9	(37.4)	(11.6)	(23.1)
Total impairment	(1.7)	(3.1)	(80.4)	(85.2)	(8.3)	(2.8)	(44.5)	(55.6)
Recoveries	-	-	93.1	93.1	-	-	43.5	43.5
Other movements	(0.8)	(0.7)	(8.2)	(9.7)	(0.1)	(0.1)	(0.1)	(0.3)
<b>Closing loss allowance at 31 December</b>	<b>(27.9)</b>	<b>(13.6)</b>	<b>(28.3)</b>	<b>(69.8)</b>	<b>(25.4)</b>	<b>(9.8)</b>	<b>(32.8)</b>	<b>(68.0)</b>

	2019				2018			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Net receivables – IPF Digital								
Opening net receivables at 1 January	227.0	18.3	4.7	250.0	161.2	14.0	5.2	180.4
Credit issued	333.5	-	-	333.5	311.8	-	-	311.8
Transfers between stages:	(101.1)	(3.5)	104.6	-	(80.1)	3.9	76.2	-
From stage 1	(181.2)	179.4	1.8	-	(134.1)	127.1	7.0	-
From stage 2	78.2	(185.1)	106.9	-	52.5	(124.1)	71.6	-
From stage 3	1.9	2.2	(4.1)	-	1.5	0.9	(2.4)	-
Revenue	161.8	17.9	9.6	189.3	128.3	11.9	6.8	147.0
Impairment	(1.7)	(3.1)	(80.4)	(85.2)	(8.3)	(2.8)	(44.5)	(55.6)
Recoveries	(371.9)	(8.5)	(27.0)	(407.4)	(285.5)	(8.5)	(38.8)	(332.8)
Other movements	(15.1)	(2.3)	(10.6)	(28.0)	(0.4)	(0.2)	(0.2)	(0.8)
<b>Closing net receivables at 31 December</b>	<b>232.5</b>	<b>18.8</b>	<b>0.9</b>	<b>252.2</b>	<b>227.0</b>	<b>18.3</b>	<b>4.7</b>	<b>250.0</b>

## 15. Amounts receivable from customers continued

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

Group	2019 %	2018 %
European home credit	12.4	17.9
Mexico home credit	41.3	36.7
Digital	45.0	37.8

The carrying value of amounts receivable from customers that would have been impaired had their terms not been renegotiated is £nil (2018: £nil).

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the average EIR of 105% (2018: 109%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 12.2 months (2018: 11.5 months).

No collateral is held in respect of any customer receivables.

Management monitor credit quality using two key metrics: impairment as a percentage of revenue and gross cash loss ('GCL') development. Commentary on impairment as a percentage of revenue is set out in the operational review at both Group and segment level. GCL represents the expected total value of contractual cash flows that will not be collected and will ultimately be written off for any loan or group of loans. Until collections on any group of receivables are complete, the GCL forecast is a composite of actual and expected cash flows. This represents a leading-edge measure of credit quality with forecasts based on the actual performance of previous lending.

The Company has no amounts receivable from customers.

## 16. Cash and cash equivalents

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Cash at bank and in hand	37.4	46.6	0.2	0.1

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

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Polish zloty	18.4	23.6	-	-
Czech crown	2.2	3.4	-	-
Euro	5.6	7.2	0.2	0.1
Hungarian forint	1.6	2.0	-	-
Mexican peso	6.5	6.7	-	-
Romanian leu	2.3	3.1	-	-
Australian dollar	0.8	0.6	-	-
<b>Total</b>	<b>37.4</b>	<b>46.6</b>	<b>0.2</b>	<b>0.1</b>

## 17. Other receivables

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Other receivables	4.2	9.8	0.6	0.1
Prepayments	12.7	9.1	0.3	0.7
Amounts due from Group undertakings	-	-	634.7	666.6
<b>Total</b>	<b>16.9</b>	<b>18.9</b>	<b>635.6</b>	<b>667.4</b>

No balance within other receivables is impaired.

Amounts due from Group undertakings are unsecured and due for repayment in less than one year.

## 18. Trade and other payables

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Trade payables	9.9	16.8	0.6	-
Other payables including taxation and social security	49.8	50.7	0.1	0.5
Accruals	64.2	80.2	20.8	23.5
Amounts due to Group undertakings	-	-	453.4	394.4
<b>Total</b>	<b>123.9</b>	<b>147.7</b>	<b>474.9</b>	<b>418.4</b>

Amounts due to Group undertakings are unsecured and due for repayment in less than one year.

## 19. Borrowing facilities and borrowings

The Group and Company's borrowings are as follows:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
<i>Borrowings</i>				
Bank borrowings	137.3	130.7	4.6	3.5
Bonds	539.1	567.6	499.4	525.7
<b>Total</b>	<b>676.4</b>	<b>698.3</b>	<b>504.0</b>	<b>529.2</b>

The Group's external bonds comprise the following:

Bond	Coupon %	Maturity date	2019 £m
€406.1 million EMTN	5.750	2021	343.5
£44.1 million retail bond	6.125	2020	44.1
£78.1 million retail bond	7.750	2023	78.1
Polish zloty 200.0 million PMTN	Six-month WIBOR plus 425 basis points	2020	39.8
Swedish krona 450.0 million EMTN	Three-month STIBOR plus 875 basis points	2022	36.4
			541.9
Less: unamortised arrangement fees			(2.8)
			539.1

The Polish zloty 200 million (£39.8 million) bonds are floating rate bonds, although derivative contracts have been used to fix borrowing costs up to June 2020. The Swedish Krona 450 million (£36.4 million) bond is a floating rate bond, although derivative contracts have been used to cap the borrowing costs up to September 2020. The Eurobond €406.1 million (£343.5 million) was originally €412.0 million (£348.5 million) but the Group bought back €5.9 million (£5.0 million) of bonds in Q4 2019. The external bank borrowings of the Group are at a combination of floating and fixed rates.

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

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
<i>Borrowings</i>				
Repayable:				
- in less than one year	112.7	28.8	48.6	18.9
- between one and two years	366.7	172.1	342.5	101.2
- between two and five years	197.0	497.4	112.9	409.1
<b>Total</b>	<b>676.4</b>	<b>698.3</b>	<b>504.0</b>	<b>529.2</b>

The average period to maturity of the Group's external bonds and committed external borrowing facilities is 1.7 years (2018: 2.1 years).

## 19. Borrowing facilities and borrowings continued

The currency exposure on external borrowings is as follows:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Sterling	125.1	104.7	125.1	104.7
Polish zloty	63.7	99.6	-	-
Czech crown	21.5	15.5	-	-
Euro	342.5	369.1	342.5	369.1
Hungarian forint	75.9	44.6	-	-
Mexican peso	5.8	4.3	-	-
Romanian leu	5.5	20.5	-	15.4
Swedish krona	36.4	40.0	36.4	40.0
<b>Total</b>	<b>676.4</b>	<b>698.3</b>	<b>504.0</b>	<b>529.2</b>

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

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
<i>Bond and bank facilities available</i>				
Repayable:				
- on demand	23.7	20.9	9.7	10.0
- in less than one year	171.5	65.7	66.4	15.4
- between one and two years	424.9	226.6	380.5	118.5
- between two and five years	241.5	572.8	126.7	452.2
<b>Total</b>	<b>861.6</b>	<b>886.0</b>	<b>583.3</b>	<b>596.1</b>

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

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Expiring within one year	82.3	57.8	27.4	6.5
Expiring between one and two years	57.1	54.1	49.2	17.0
Expiring in more than two years	43.0	73.6	-	41.3
<b>Total</b>	<b>182.4</b>	<b>185.5</b>	<b>76.6</b>	<b>64.8</b>

Undrawn external facilities above does not include unamortised arrangement fees.

## 20. Risks arising from financial instruments

### Risk management

#### Treasury related risks

The Board approves treasury policies and the treasury function manages the day-to-day operations. The Board delegates certain responsibilities to the Treasury Committee. The Treasury Committee is empowered to take decisions within that delegated authority. Treasury activities and compliance with treasury policies are reported to the Board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risk; interest rate risk; currency risk; and counterparty risk. This is to ensure that the Group is properly funded; that interest rate and currency risk are managed within set limits; and that financial counterparties are of appropriate credit quality. Policies also set out the specific instruments that can be used for risk management.

The treasury function enters into derivative transactions, principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options.

#### Liquidity risk

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The short-term nature of the Group's business means that the majority of amounts receivable from customers are receivable within twelve months with an average period to maturity of around twelve months. The risk of not having sufficient liquid resources is therefore low. The treasury policy adopted by the Group serves to reduce this risk further by setting a specific policy parameter that there are sufficient committed debt facilities to cover forecast borrowings plus an appropriate level of operational headroom on a rolling basis. Further, the aim is to ensure that there is a balanced refinancing profile; that there is diversification of debt funding sources; that there is no over-reliance on a single or small group of lenders; and that debt facilities and hedging capacity are sufficient for the currency requirements of each country. At 31 December 2019, the Group's bonds and committed borrowing facilities had an average period to maturity of 1.7 years (2018: 2.1 years).

As shown in note 19, total undrawn facilities as at 31 December 2019 were £182.4 million (2018: £185.5 million).



## 20. Risks arising from financial instruments continued

A maturity analysis of gross borrowings included in the balance sheet is presented in note 19. 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	
	2019 £m	2018 £m	2019 £m	2018 £m
Not later than six months	113.1	20.5	60.1	15.8
Later than six months and not later than one year	36.3	49.5	287.3	306.0
Later than one year and not later than two years	387.2	205.6	358.0	128.3
Later than two years and not later than five years	217.8	515.0	297.0	544.8
	<b>754.4</b>	<b>790.6</b>	<b>1,002.4</b>	<b>994.9</b>

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.

In line with paragraph 39(a) of IFRS 7, the maturity table for the Company also includes amounts payable to Group companies of £437.9 million (2018: £394.4 million).

The following analysis shows the gross non-discounted contractual cash flows in respect of foreign currency contract derivative assets and liabilities, and interest rate swap derivative liabilities which are all designated as cash flow hedges:

Group	Group		Company	
	Outflow £m	Inflow £m	Outflow £m	Inflow £m
Not later than one month	149.8	151.3	156.1	155.5
Later than one month and not later than six months	142.9	146.2	76.3	73.5
Later than six months and not later than one year	96.7	92.1	106.8	104.9
Later than one year and not later than two years	38.3	34.3	48.4	44.1
	<b>427.7</b>	<b>423.9</b>	<b>387.6</b>	<b>378.0</b>

Company	2019		2018	
	Outflow £m	Inflow £m	Outflow £m	Inflow £m
Not later than one month	0.6	0.5	13.7	14.0
Later than one month and not later than six months	0.9	0.9	1.0	1.0
Later than six months and not later than one year	0.5	0.5	0.7	0.6
	<b>2.0</b>	<b>1.9</b>	<b>15.4</b>	<b>15.6</b>

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.

## 20. Risks arising from financial instruments continued

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 %
<b>2018</b>				
Less than one year	764.2	77.0	86.6	9.8
Later than one year	228.6	23.0	799.4	90.2
	<b>992.8</b>	<b>100.0</b>	<b>886.0</b>	<b>100.0</b>
<b>2019</b>				
Less than one year	<b>728.3</b>	<b>74.8</b>	<b>195.2</b>	<b>22.7</b>
Later than one year	<b>245.3</b>	<b>25.2</b>	<b>666.4</b>	<b>77.3</b>
	<b>973.6</b>	<b>100.0</b>	<b>861.6</b>	<b>100.0</b>

The average period of receivables outstanding has increased as a result of issuing longer-term loans in our European home credit and IPF Digital businesses.

This demonstrates the short-term nature of the amounts receivable from customers which contrasts with the longer-term nature of the Group's committed funding facilities.

### Amounts receivable from customers

Risk management policies in respect of amounts receivable from customers are discussed in the credit risk section within this note, and in note 15.

### 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 (7.1% in 2019; 6.8% in 2018) and therefore the risk of a material impact on profitability arising from a change in interest rates is low. If interest rates across all markets increased by 200 basis points this would have the following impact, net of existing hedging arrangements.

Group	2019 £m	2018 £m
Increase in fair value of derivatives taken to equity	-	0.8
Reduction in profit before taxation	<b>1.3</b>	1.9

This sensitivity analysis is based on the following assumptions:

- the change in the market interest rate occurs in all countries where the Group has borrowings and/or derivative financial instruments;
- where financial liabilities are subject to fixed interest rates or have their interest rate fixed by hedging instruments it is assumed that there is no impact from a change in interest rates; and
- changes in market interest rate affect the fair value of derivative financial instruments.

### Currency risk

The Group is subject to three types of currency risk: net asset exposure; cash flow exposure; and income statement exposure.

#### Net asset exposure

The majority of the Group's net assets are denominated in currencies other than sterling. The balance sheet is reported in sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have a material impact on the net assets of the Group. The impact in 2019 is a reduction in net assets of £42.2 million (2018: reduction of £8.7 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.

## 20. Risks arising from financial instruments continued

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	2019 £m	2018 £m
Change in reserves	4.9	5.7
Change in profit before taxation	7.8	8.3

This sensitivity analysis is based on the following assumptions:

- there is a 5% strengthening/weakening of sterling against all currencies in which the Group operates (Polish zloty, Czech crown, euro, Hungarian forint, Mexican peso, Romanian leu, and Australian dollar); and
- there is no impact on retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

### Counterparty risk

The Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks; and foreign currency and derivative financial instruments.

The Group only deposits cash, and only undertakes currency and derivative transactions, generally with highly rated banks and sets strict limits in respect of the amount of exposure to any one institution. Institutions with lower credit ratings can only be used as approved, or delegated for approval, by the Board.

No collateral or credit enhancements are held in respect of any financial assets. The maximum exposure to counterparty risk is as follows:

Group	2019 £m	2018 £m
Cash and cash equivalents	37.4	46.6
Derivative financial assets	0.3	1.6
<b>Total</b>	<b>37.7</b>	<b>48.2</b>

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 16.

Cash and cash equivalents and derivative financial instruments are neither past due nor impaired. Credit quality of these assets is good and the cash and cash equivalents are spread over a number of banks, each of which meets the criteria set out in our treasury policies, to ensure the risk of loss is minimised.

### Credit risk

The Group is subject to credit risk in respect of amounts receivable from customers.

#### Amounts receivable from customers

The Group lends small amounts over short-term periods to a large and diverse group of customers across the countries in which it operates. Nevertheless, the Group is subject to a risk of material unexpected credit losses in respect of amounts receivable from customers. This risk is minimised by the use of credit scoring techniques which are designed to ensure the Group lends only to those customers who we believe can afford the repayments. The amount loaned to each customer and the repayment period agreed are dependent upon the risk category the customer is assigned to as part of the credit scoring process. The level of expected future losses is generated on a weekly or monthly basis by business line and geographical segment. These outputs are reviewed by management to ensure that appropriate action can be taken if results differ from management expectations.

Group	2019 £m	2018 £m
Amounts receivable from customers	973.6	992.8

The table above represents the maximum exposure to credit risk of the Group at the year end. Further analysis of the amounts receivable from customers is presented in note 15.

### 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.

## 20. Risks arising from financial instruments continued

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	2019 £m	2018 £m
Receivables	973.6	992.8
Borrowings	(676.4)	(698.3)
Other net assets	139.2	138.5
Equity	436.4	433.0
Equity as % of receivables	44.8%	43.6%
Gearing	1.5	1.6

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

We operate with significant headroom on the key financial covenants (which are prepared on an IAS 39 basis), further details are included within the Financial review on page 42.

## 21. Derivative financial instruments

The Group's derivative assets and liabilities that were measured at fair value at 31 December are as follows:

Group	2019 £m	2018 £m
<i>Assets</i>		
Foreign currency contracts	0.3	1.6
<b>Total</b>	<b>0.3</b>	<b>1.6</b>

Group	2019 £m	2018 £m
<i>Liabilities</i>		
Interest rate swaps	0.2	0.6
Foreign currency contracts	16.0	6.7
<b>Total</b>	<b>16.2</b>	<b>7.3</b>

Company	2019 £m	2018 £m
<i>Liabilities</i>		
Foreign currency contracts	-	0.1
<b>Total</b>	<b>-</b>	<b>0.1</b>

The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December.

### Cash flow hedges

The Group uses foreign currency contracts ('cash flow hedges') to hedge those foreign currency cash flows that are highly probable to occur within 12 months of the balance sheet date and interest rate swaps ('cash flow hedges') to hedge those interest cash flows that are expected to occur within two years of the balance sheet date. The effect on the income statement will also be within these periods. An amount of £0.6 million has been credited to equity for the Group in the period in respect of cash flow hedges (2018: £0.3 million credited to equity), Company: £0.1 million charge (2018: £1.0 million credit).

The following table shows the notional maturity profile of outstanding cash flow hedges:

Group	Repayable up to one year £m	In more than one year but less than two years £m	Total £m
As at 31 December 2018			
Foreign currency contracts	474.0	-	474.0
Interest rate swaps	-	42.0	42.0
Cash flow hedges	474.0	42.0	516.0
<b>As at 31 December 2019</b>			
Foreign currency contracts	191.6	228.3	419.9
Interest rate swaps	39.8	-	39.8
Cash flow hedges	231.4	228.3	459.7

## 21. Derivative financial instruments continued

Company	Repayable up to one year £m	In more than one year but less than two years £m	Total £m
As at 31 December 2018			
Foreign currency contracts	15.4	-	15.4
Cash flow hedges	15.4	-	15.4
<b>As at 31 December 2019</b>			
Foreign currency contracts	<b>1.9</b>	-	<b>1.9</b>
Cash flow hedges	<b>1.9</b>	-	<b>1.9</b>

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 (2018: £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:

Group	2019			2018		
	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	<b>2.7</b>	<b>2.7-2.8</b>	<b>0.4</b>	2.7	2.7-2.8	1.4

The Company did not hold any interest rate swaps at 31 December 2019 (31 December 2018: £nil).

A derivative contract has been used to cap the floating rate borrowing costs on the Swedish Krona 450 million (£36.4m) bond at 0.5% plus margin up to September 2020.

## 22. Analysis of financial assets and financial liabilities

### Financial assets

An analysis of Group financial assets is presented below:

Group	2019			2018		
	Financial assets at amortised cost £m	Derivatives used for hedging £m	Total £m	Financial assets at amortised cost £m	Derivatives used for hedging £m	Total £m
Amounts receivable from customers	<b>973.6</b>	-	<b>973.6</b>	992.8	-	992.8
Derivative financial instruments	-	<b>0.3</b>	<b>0.3</b>	-	1.6	1.6
Cash and cash equivalents	<b>37.4</b>	-	<b>37.4</b>	46.6	-	46.6
Other receivables	<b>16.9</b>	-	<b>16.9</b>	18.9	-	18.9
	<b>1,027.9</b>	<b>0.3</b>	<b>1,028.2</b>	1,058.3	1.6	1,059.9

### Financial liabilities

An analysis of Group financial liabilities is presented below:

Group	2019			2018		
	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	<b>539.1</b>	-	<b>539.1</b>	567.6	-	567.6
Bank borrowings	<b>137.3</b>	-	<b>137.3</b>	130.7	-	130.7
Derivative financial instruments	-	<b>16.2</b>	<b>16.2</b>	-	7.3	7.3
Trade and other payables	<b>123.9</b>	-	<b>123.9</b>	147.7	-	147.7
	<b>800.3</b>	<b>16.2</b>	<b>816.5</b>	846.0	7.3	853.3

## 23. Fair values of financial assets and liabilities

IFRS 13 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 and 2, 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 below, along with the fair value of other Group assets and liabilities.

The fair value and carrying value of the financial assets and liabilities of the Group are set out below:

At 31 December 2018	Carrying value £m	Fair values			Total fair value £m
		Level 1 £m	Level 2 £m	Level 3 £m	
<i>Financial assets</i>					
Amounts receivable from customers	992.8	-	-	1,371.9	1,371.9
Derivative financial instruments	1.6	-	1.6	-	1.6
Cash and cash equivalents	46.6	-	46.6	-	46.6
Other receivables	18.9	-	18.9	-	18.9
	<b>1,059.9</b>	<b>-</b>	<b>67.1</b>	<b>1,371.9</b>	<b>1,439.0</b>
<i>Financial liabilities</i>					
Bonds	567.6	529.6	-	-	529.6
Bank borrowings	130.7	-	130.7	-	130.7
Derivative financial instruments	7.3	-	7.3	-	7.3
Trade and other payables	147.7	-	147.7	-	147.7
	<b>853.3</b>	<b>529.6</b>	<b>285.7</b>	<b>-</b>	<b>815.3</b>

At 31 December 2019	Carrying value £m	Fair values			Total fair value £m
		Level 1 £m	Level 2 £m	Level 3 £m	
<i>Financial assets</i>					
Amounts receivable from customers	973.6	-	-	1,345.6	1,345.6
Derivative financial instruments	0.3	-	0.3	-	0.3
Cash and cash equivalents	37.4	-	37.4	-	37.4
Other receivables	16.9	-	16.9	-	16.9
	<b>1,028.2</b>	<b>-</b>	<b>54.6</b>	<b>1,345.6</b>	<b>1,400.2</b>
<i>Financial liabilities</i>					
Bonds	539.1	533.4	-	-	533.4
Bank borrowings	137.3	-	137.3	-	137.3
Derivative financial instruments	16.2	-	16.2	-	16.2
Trade and other payables	123.9	-	123.9	-	123.9
	<b>816.5</b>	<b>533.4</b>	<b>277.4</b>	<b>-</b>	<b>810.8</b>



## 23. Fair values of financial assets and liabilities continued

The fair value and carrying value of the financial assets and liabilities of the Company are set out below:

At 31 December 2018	Carrying value £m	Fair values			Total fair value £m
		Level 1 £m	Level 2 £m	Level 3 £m	
<i>Financial assets</i>					
Cash and cash equivalents	0.1	-	0.1	-	0.1
Other receivables	667.4	-	667.4	-	667.4
	<b>667.5</b>	<b>-</b>	<b>667.5</b>	<b>-</b>	<b>667.5</b>
<i>Financial liabilities</i>					
Bonds	525.7	489.8	-	-	489.8
Bank borrowings	3.5	-	3.5	-	3.5
Derivative financial instruments	0.1	-	0.1	-	0.1
Trade and other payables	418.4	-	418.4	-	418.4
	<b>947.7</b>	<b>489.8</b>	<b>422.0</b>	<b>-</b>	<b>911.8</b>

At 31 December 2019	Carrying value £m	Fair values			Total fair value £m
		Level 1 £m	Level 2 £m	Level 3 £m	
<i>Financial assets</i>					
Cash and cash equivalents	0.2	-	0.2	-	0.2
Other receivables	635.6	-	635.6	-	635.6
	<b>635.8</b>	<b>-</b>	<b>635.8</b>	<b>-</b>	<b>635.8</b>
<i>Financial liabilities</i>					
Bonds	499.4	494.8	-	-	494.8
Bank borrowings	4.6	-	4.6	-	4.6
	<b>474.9</b>	<b>-</b>	<b>474.9</b>	<b>-</b>	<b>474.9</b>
	<b>978.9</b>	<b>494.8</b>	<b>479.5</b>	<b>-</b>	<b>974.3</b>

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (as used to calculate the carrying value of amounts due from customers), net of collection costs, at the Group's weighted average cost of capital which we estimate to be 9% (2018: 10%) which is assumed to be a proxy for the discount rate that a market participant would use to price the asset.

Under IFRS 13 'Fair value measurement', receivables are classed as level 3 as their fair value is calculated using future cash flows that are unobservable inputs.

The fair value of the bonds has been calculated by reference to their market value where market prices are available.

The carrying value of bank borrowings is deemed to be a good approximation of their fair value. Bank borrowings can be repaid within six months if the Group decides not to roll over for further periods up to the contractual repayment date. The impact of discounting would therefore be negligible.

Derivative financial instruments are held at fair value which is equal to the expected future cash flows arising as a result of the derivative transaction.

For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of their fair value.

## 24. Retirement benefit asset/obligation

### Pension schemes – defined benefit

With effect from 1 March 2010, the Group's defined benefit pension scheme was closed to further accrual of defined benefit obligations.

Scheme assets are stated at fair value as at 31 December 2019. The major assumptions used by the actuary were:

Group and Company	2019 %	2018 %
Price inflation ('CPI')	1.9	2.1
Rate of increase to pensions in payment	2.6	3.0
Discount rate	2.1	3.0

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The mortality assumptions are based on standard tables which allow for future mortality improvements. Different assumptions are used for different groups of members. Most members have not yet retired. On average, we expect a male retiring in the future at age 65 to live for a further 25 years. On average, we expect a female retiring in the future at age 65 to live for a further 26 years. If life expectancies had been assumed to be one year greater for all members, the defined benefit asset would reduce by approximately £1.9 million.

If the discount rate was 25 basis points higher/(lower), the defined benefit asset would increase by £2.4 million/(decrease by £2.5 million).

If the price inflation rate was 25 basis points higher/(lower), the defined benefit asset would decrease by £1.2 million/(increase by £1.2 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit asset, as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The amounts recognised in the balance sheet are as follows:

Group and Company	2019 £m	2018 £m
Equities	-	10.8
Diversified growth funds	6.9	11.2
Corporate bonds	18.3	10.1
Liability driven investments	18.7	7.4
Other	1.9	1.9
Total fair value of scheme assets	45.8	41.4
Present value of funded defined benefit obligations	(42.4)	(37.3)
<b>Net asset recognised in the balance sheet</b>	<b>3.4</b>	<b>4.1</b>

The amounts recognised in the income statement are as follows:

Group and Company	2019 £m	2018 £m
Interest cost	1.1	1.0
Past service cost	-	0.1
Expected return on scheme assets	(1.2)	(1.1)
<b>Net credit recognised in the income statement</b>	<b>(0.1)</b>	<b>-</b>

The net credit is included within administrative expenses.

Movements in the fair value of scheme assets were as follows:

Group and Company	2019 £m	2018 £m
Fair value of scheme assets at 1 January	41.4	42.2
Expected return on scheme assets	1.2	1.1
Actuarial gain/(loss) on scheme assets	4.4	(2.2)
Contributions by the Group	0.9	0.9
Net benefits paid out	(2.1)	(0.6)
<b>Fair value of scheme assets at 31 December</b>	<b>45.8</b>	<b>41.4</b>

The Group expects to make a contribution of £0.9 million (2018: £0.9 million) to the deferred benefit pension scheme in the year ending 31 December 2020. The Group is committed to paying £0.9 million per annum into the scheme until 2022 pursuant to a recovery plan agreed with the scheme Trustee.

## 24. Retirement benefit asset/obligation continued

Movements in the present value of the defined benefit obligation were as follows:

Group and Company	2019 £m	2018 £m
Defined benefit obligation at 1 January	(37.3)	(40.1)
Interest cost	(1.1)	(1.0)
Actuarial (loss)/gain on scheme liabilities	(6.1)	3.3
Past service cost	-	(0.1)
Net benefits paid out	2.1	0.6
<b>Defined benefit obligation at 31 December</b>	<b>(42.4)</b>	<b>(37.3)</b>

The weighted average duration of the defined benefit asset is 23.3 years (2018: 22.4 years).

The actual return on scheme assets compared to the expected return is as follows:

Group and Company	2019 £m	2018 £m
Expected return on scheme assets	1.2	1.1
Actuarial gain/(loss) on scheme assets	4.4	(2.2)
<b>Actual return/(loss) on scheme assets</b>	<b>5.6</b>	<b>(1.1)</b>

Actuarial gains and losses have been recognised through the statement of comprehensive income ('SOCl') in the period in which they occur.

An analysis of the amounts recognised in the SOCl is as follows:

Group and Company	2019 £m	2018 £m
Actuarial gain/(loss) on scheme assets	4.4	(2.2)
Actuarial (loss)/gain on scheme liabilities	(6.1)	3.3
Total (loss)/gain recognised in the SOCl in the year	(1.7)	1.1
<b>Cumulative amount of losses recognised in the SOCl</b>	<b>(15.8)</b>	<b>(14.1)</b>

The history of experience adjustments are as follows:

Group and Company	2019	2018	2017*	2016*	2015*
Experience gains/(losses) on scheme assets:					
• amount (£m)	4.4	(2.2)	3.9	3.4	(0.9)
• percentage of scheme assets (%)	9.6	(5.3)	9.2	8.5	(2.5)
Experience gains on scheme liabilities:					
• amount (£m)	-	-	2.9	-	-
• percentage of scheme liabilities (%)	-	-	7.1	-	-

\* As required under IAS 19.

### Pension schemes - defined contribution

The defined benefit pension scheme is no longer open to further accrual. All eligible UK employees are invited to join stakeholder pension schemes into which the Group contributes between 8% and 20% of members' pensionable earnings, provided the employee contributes a minimum of 5%. The assets of the scheme are held separately from those of the Group. The pension charge in the income statement represents contributions payable by the Group in respect of the scheme and amounted to £0.9 million for the year ended 31 December 2019 (2018: £0.8 million). £nil contributions were payable to the scheme at the year end (2018: £nil).

## 25. Share-based payments

The Group currently operates six categories of share schemes: The International Personal Finance plc Performance Share Plan ('the Performance Share Plan'); The International Personal Finance plc Approved Company Share Option Plan ('the CSOP'); The International Personal Finance plc Employee Savings-Related Share Option Scheme ('the SAYE scheme'); The International Personal Finance plc Deferred Share Plan ('the Deferred Share Plan'); The International Personal Finance plc Have Your Share Plan ('the HYS Plan'); and The International Personal Finance plc Discretionary Award Plan ('the Discretionary Award Plan'). A number of awards have been granted under these schemes during the period under review. No awards have been granted under the CSOP, or the HYS Plan in 2019.

Options granted under the Performance Share Plans and CSOPs may be subject to a total shareholder return ('TSR') performance target and/or earnings per share ('EPS') growth; net revenue growth; customer numbers growth; agent turnover; and earnings before interest and tax ('EBIT') performance targets. The income statement charge in respect of the Performance Share Plan and the CSOP has been calculated using both a Monte Carlo simulation (for TSR) and Black-Scholes model (for the other non-market related conditions) as these schemes include performance targets. There are no performance conditions associated with the HYS plan; if an employee purchases a number of shares (subject to a maximum), the Company grants a nil cost option over four times the number of shares initially purchased. The only criterion associated with this option is that the employee must remain in employment for three years following the initial grant date. The income statement charge in respect of this scheme is calculated using the share price at the date of grant. There are no performance conditions associated with the Discretionary Award Plan, the income statement charge in respect of this scheme is calculated using the share price at the date of grant.

The income statement charge in respect of the SAYE scheme is calculated using a Monte Carlo simulation model, however, no TSR targets are assigned. The Deferred Share Plan comprises deferred awards with matching awards. From the 2018 scheme onwards, the Deferred Share Plan does not have matching awards. There are no additional performance criteria attached to the deferred awards, therefore, the income statement charge is calculated using the actual share price at the date the award is granted. The matching awards are subject to the same criteria as the Performance Share Plan.

The total income statement charge in respect of these share-based payments is £2.4 million (2018: charge of £1.1 million).

The fair value per award granted and the assumptions used in the calculation of the share-based payment charge are as follows:

Group and Company	SAYE schemes	Performance Share Plans	Discretionary Award Plan
	2019	2019	2019
Grant date	2019	2019	2019
Share price at award date	0.88	1.91	1.91
Base price for TSR	n/a	2.07	n/a
Exercise price	0.86	Nil	n/a
Vesting period (years)	3 and 5	3	3
Expected volatility	51.1%-52.1%	52.8%-54.7%	n/a
Award life (years)	Up to 5	3	n/a
Expected life (years)	Up to 5	3	n/a
Risk-free rate	0.48%	1.19%	n/a
Expected dividends expressed as a dividend yield	14.04%	6.50%	n/a
Deferred portion	n/a	50.0%	n/a
TSR threshold	n/a	30.0%	n/a
TSR maximum target	n/a	60.0%	n/a
EPS threshold	n/a	82.8p	n/a
EPS maximum target	n/a	100.6p	n/a
Net revenue threshold	n/a	5.7%	n/a
Net revenue maximum target	n/a	6.9%	n/a
Fair value per award (£)	0.17-0.19	0.83-0.84	n/a

No exercise price is payable in respect of any awards made under the Performance Share Plan, HYS Plan, Discretionary Award Plan or the Deferred Share Plan. The risk-free rate of return is the yield on zero coupon UK government bonds with a remaining term equal to the expected life of the award.

Further detail in respect of the Performance Share Plans, CSOPs, Deferred Share Plans, SAYE schemes, HYS Plans and Discretionary Award Plan is given in the Corporate Governance Report.

## 25. Share-based payments continued

The movements in awards during the year for the Group are outlined in the table below:

Group	SAYE schemes		CSOPs		Deferred Share Plans		Performance Share Plans		HYS Plans		Discretionary Award Plan	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2018	537,248	1.74	300,860	3.14	1,820,921	-	6,633,574	-	90,280	-	320,000	-
Granted	103,836	1.92	-	-	806,714	-	3,243,898	-	-	-	412,704	-
Expired/lapsed	(60,787)	2.24	(64,768)	3.70	(112,175)	-	(1,522,638)	-	(84,744)	-	-	-
Exercised	(2,921)	1.54	-	-	(360,873)	-	(177,362)	-	-	-	(120,000)	-
Outstanding at 31 December 2018	577,376	1.72	236,092	2.99	2,154,587	-	8,177,472	-	5,536	-	612,704	-
Outstanding at 1 January 2019	577,376	1.72	236,092	2.99	2,154,587	-	8,177,472	-	5,536	-	612,704	-
Granted	1,087,937	0.86	-	-	1,101,832	-	3,820,391	-	-	-	8,345	-
Expired/lapsed	(471,943)	1.70	(202,094)	2.96	(104,172)	-	(1,815,112)	-	(5,536)	-	(38,428)	-
Exercised	-	-	-	-	(233,916)	-	(38,729)	-	-	-	(200,000)	-
Outstanding at 31 December 2019	1,193,370	0.94	33,998	3.1	2,918,331	-	10,144,022	-	-	-	382,621	-

Share awards outstanding at 31 December 2019 had exercise prices of £0.86 - £6.36 (2018: £1.54 - £6.36) and a weighted average remaining contractual life of 8.4 years (2018: 8.4 years).

The movements in awards during the year for the Company are outlined in the table below:

Company	SAYE schemes		CSOPs		Deferred Share Plans		Performance Share Plans	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2018	245,845	1.83	158,792	3.13	800,494	-	2,583,915	-
Granted	48,716	1.92	-	-	312,041	-	1,316,576	-
Transferred	149,646	1.52	-	-	-	-	-	-
Expired/lapsed	(45,937)	2.20	(32,803)	3.51	(90,024)	-	(686,122)	-
Exercised	(2,272)	1.54	-	-	(213,278)	-	(56,115)	-
Outstanding at 31 December 2018	395,998	1.68	125,989	2.68	809,233	-	3,158,254	-
Outstanding at 1 January 2019	395,998	1.68	125,989	2.68	809,233	-	3,158,254	-
Granted	702,897	0.86	-	-	420,251	-	1,584,765	-
Transferred	-	-	-	-	-	-	-	-
Expired/lapsed	(362,465)	1.66	(98,256)	2.98	(66,766)	-	(590,581)	-
Exercised	-	-	-	-	(139,827)	-	(10,408)	-
Outstanding at 31 December 2019	736,430	0.91	27,733	2.96	1,022,891	-	4,142,030	-

The Company does not have any awards under the HYS Plan or Discretionary Award Plan.

Share awards outstanding at 31 December 2019 had exercise prices of £0.86 - £5.26 (2018: £1.54 - £6.36) and a weighted average remaining contractual life of 8.5 years (2018: 8.4 years).

## 26. Share capital

Company	2019 £m	2018 £m
234,244,437 fully paid up shares at a nominal value of 10 pence	23.4	23.4

The Company has one class of ordinary shares which carry no right to fixed income.

The own share reserve represents the cost of shares in International Personal Finance purchased from the market, which can be used to satisfy options under the Group's share options schemes (see note 25). The number of ordinary shares held in treasury and by the employee trust at 31 December 2019 was 12,224,083 (2018: 10,991,381). During 2019 the employee trust acquired 1,718,000 shares at an average price of £1.22.

## 27. Reconciliation of profit/(loss) after taxation to cash generated from operating activities

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Profit/(loss) after taxation from operations	71.8	75.4	(33.9)	(32.3)
Adjusted for:				
• tax charge	42.2	33.9	0.8	1.5
• finance costs	63.5	58.5	58.4	56.8
• finance income	-	-	(34.9)	(37.8)
• share-based payment charge (note 25)	2.4	1.1	1.4	0.3
• depreciation of property, plant and equipment (note 13)	8.5	9.2	-	-
• loss on disposal of property, plant and equipment (note 13)	0.5	0.5	-	-
• amortisation of intangible assets (note 11)	14.8	14.5	-	-
• depreciation of right-of-use assets (note 31)	9.1	-	-	-
• short term and low value lease costs	2.9	-	-	-
Changes in operating assets and liabilities:				
• increase in amounts receivable from customers	(34.3)	(65.9)	-	-
• (increase)/decrease in other receivables	(3.7)	-	31.1	29.0
• (decrease)/increase in trade and other payables	(18.3)	3.7	59.4	76.6
• change in retirement benefit asset	(1.0)	(0.9)	(1.0)	(0.9)
• increase/(decrease) in derivative financial instrument liabilities	10.8	11.6	(0.2)	4.5
Cash generated from operating activities	169.2	141.6	81.1	97.7

## 28. Capital commitments

Group	2019 £m	2018 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	2.7	4.9

The Company has no commitments as at 31 December 2019 (2018: £nil).



## 29. Contingent liabilities

The Company has a contingent liability for guarantees given in respect of the borrowings of certain other Group companies to a maximum of £264.1 million (2018: £264.2 million). At 31 December 2019, the fixed and floating rate borrowings under these facilities amounted to £131.4 million (2018: £151.8 million). The directors do not expect any loss to arise. These guarantees are defined as financial guarantees under IFRS 9 and their fair value at 31 December 2019 was £nil (2018: £nil).

### Polish tax audit

The Group's home credit company in Poland, Provident Polska, has been subject to tax audits in respect of the company's 2008 and 2009 financial years. During these audits the Polish tax authorities have challenged an intra-group arrangement with a UK entity, and the timing of the taxation of home collection fee revenues.

These audits culminated with decisions being received from the Polish Tax Chamber (the upper tier of the Polish tax authority) in January 2017 in relation to both the 2008 and 2009 financial years. Provident Polska appealed these decisions to the District Administrative Court but had to pay the amounts assessed totalling approximately £34.2 million (comprising tax and associated interest) in order to make the appeals. Subsequently an application was made to initiate a process ("mutual agreement procedure") involving the UK and Polish tax authorities aimed at ensuring that the intra-group arrangement is taxed in accordance with international tax principles and as a result the court hearings were stayed. Tax audits were also opened in Poland in respect of 2010 – 2012.

As announced on 24 October 2019, the Polish tax audits of 2010 – 2012 were closed and adjustments to the remaining years up to and including 2017 were agreed with the Polish tax authority. This resulted in an overall payment of £3.8 million for 2010 to 2017. The years 2008 and 2009 remain open. Following expert advice regarding the strength of the case both from a procedural and substantive position, we withdrew our application for mutual agreement procedure between the Polish and UK tax authorities in December 2019 and the cases are expected to be heard in the Polish courts in the first half of 2020.

The directors have received strong external legal advice and note that during a previous tax audit by the same tax authority the Company's treatment of these matters was accepted as correct; and as noted above, in recent months the same tax authority has accepted the Company's treatment for years 2010 onwards with only small adjustments. Therefore, the payments of the sums outlined above are not a reflection of the directors' view on the merits of the case, and accordingly the payments made in January 2017 have been recognised as a non-current tax asset in these Financial Statements given the uncertainties in relation to the timing of any repayment of such amounts.

### State Aid investigation

In late 2017 the European Commission opened a State Aid investigation into the Group Financing Exemption contained in the UK controlled foreign company rules, which were introduced in 2013. On 2 April 2019 the EU announced its finding that the Group Financing Exemption is partially incompatible with EU State Aid rules. In common with other UK-based international companies whose intra-group finance arrangements are in line with current controlled foreign company rules, the Group is affected by this decision. The total tax benefit obtained by the Group in all years as a result of the structure affected by the decision is estimated at up to £13.9 million. The amount repayable by the Group under the decision however is expected to be lower than this as the final decision only found the UK tax regime to be partially incompatible. HMRC has begun a process of gathering information from taxpayers, including IPF, in order to quantify the amount of alleged State Aid received.

The UK government has announced that it has filed an annulment application before the General Court of the European Union. In common with a number of other affected taxpayers, IPF has also filed its own annulment application. Nevertheless, the amount of finally agreed State Aid will need to be paid by the Group to HMRC in accordance with the State Aid rules pending the hearing of the applications. Based on legal advice received by management regarding the strength of the technical position set out in the annulment applications, it is expected to be more likely than not that any payment that the Group makes to HMRC as a result of the State Aid decision will ultimately be repaid. HMRC has stated that it does not consider that the timing and form of the UK's exit from the EU will have any practical impact on this matter.

## 30. Related party transactions

International Personal Finance plc has various transactions with other companies in the Group. Details of these transactions along with any balances outstanding are shown below:

Company	2019			2018		
	Recharge of costs £m	Interest charge £m	Outstanding balance £m	Recharge of costs £m	Interest charge £m	Outstanding balance £m
Europe	(0.1)	-	0.1	0.1	-	(0.6)
Mexico	-	9.1	-	-	10.5	0.6
Other UK companies	4.8	3.5	80.6	2.6	7.2	98.4
	4.7	12.6	80.7	2.7	17.7	98.4

The outstanding balance represents the gross intercompany balance receivable by the Company. This balance has decreased during 2019 due to the repayment of a proportion of these intercompany loans.

The Group's only related party transactions are remuneration of key management personnel as disclosed in note 8.

### 31. Changes in Accounting Policies – IFRS 16 ‘Leases’

This note explains the impact of the adoption of IFRS 16 Leases on the Group’s Financial Statements.

IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the current lease guidance including IAS 17 Leases and the related interpretations and became effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 1 January 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the lessee. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is measured initially at cost and measured subsequently at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is measured initially at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows is also affected because operating leases under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments are split into a principal and interest portion, which are both presented as financing cash flows.

All of the Group’s leasing arrangements have been reviewed in light of the new rules in IFRS 16 and they will primarily affect the accounting for the Group’s operating leases. The Group has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, at the lessee’s incremental borrowing rate. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8%.

Furthermore, the Group has applied exemptions available under the standard relating to low value assets and short-term leases.

As at 1 January 2019, the Group had non-cancellable operating lease commitments of £29.0 million. The Group recognised right-of-use assets of £21.5 million on 1 January 2019 and lease liabilities of £21.5 million, overall there was a £nil impact on net assets.

	Group £m
<b>Operating lease commitments as at 1 January 2019</b>	<b>29.0</b>
Operating lease commitments as at 1 January 2019 restated net of VAT	27.6
Discounted using the lessee’s incremental borrowing rate at the date of initial application	25.1
Less: short-term leases recognised on a straight-line basis as expense	(5.0)
Less: low-value leases recognised on a straight-line basis as expense	(0.4)
Add: adjustments as a result of a different treatment of extension and termination options	1.8
<b>Lease liability recognised as at 1 January 2019</b>	<b>21.5</b>

The movement in the lease liability in the period is as follows:

	Group £m
<b>Lease liability at 1 January 2019</b>	<b>21.5</b>
Exchange adjustments	(0.7)
Additions	7.1
Interest	1.5
Lease payments	(9.9)
<b>Lease liability at 31 December 2019</b>	<b>19.5</b>
Current liabilities	8.7
Non-current liabilities:	
- between one and five years	10.6
- greater than five years	0.2
<b>Lease liability at 31 December 2019</b>	<b>19.5</b>

### 31. Changes in Accounting Policies - IFRS 16 'Leases' continued

The movement in the right-of-use assets in the year is as follows:

	Motor vehicles £m	Properties £m	Group £m
<b>Net book value at 1 January 2019</b>	<b>5.5</b>	<b>16.0</b>	<b>21.5</b>
Exchange adjustments	(0.2)	(0.5)	(0.7)
Additions	4.1	3.0	7.1
Disposals	-	-	-
Depreciation	(3.0)	(6.1)	(9.1)
<b>Net book value at 31 December 2019</b>	<b>6.4</b>	<b>12.4</b>	<b>18.8</b>

The change in accounting policy affected the balance sheet on 1 January 2019 by increasing segmental assets by £21.5 million and increasing segmental liabilities by £21.5 million for the right-of-use assets and lease liability respectively. The net impact on retained earnings on 1 January 2019 was £nil.

At 31 December 2019 segmental assets were affected by an increase of £18.8 million and segmental liabilities by an increase of £19.5 million.

Amounts recognised in income statement:

	2019 £m
Depreciation on right-of-use assets	9.1
Interest expense on lease liabilities	1.5
Expenses relating to short-term leases	2.5
Expenses relating to leases of low value assets	0.4
	<b>13.5</b>

The total cash outflow in the year in respect of lease contracts is £13.1m.

The Company has no leases as at 31 December 2019 (2018: £nil).

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
<b>Income statement measures</b>			
Credit issued growth (%)	None	Not applicable	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business. Credit issued growth is the period-on-period change in this metric which is calculated by retranslating the previous year's credit issued at the average actual exchange rates used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).
Average net receivables (£m)	None	Not applicable	Average net receivables are the average amounts receivable from customers translated at the average monthly actual exchange rate. This measure is presented to illustrate the change in amounts receivable from customers on a consistent basis with revenue growth.
Average net receivables growth at constant exchange rates (%)	None	Not applicable	Average net receivables growth is the period-on-period change in average net receivables which is calculated by retranslating the previous year's average net receivables at the average actual exchange rates used in the current financial year. This ensures that the measure is presented period-on-period reported results (constant exchange rates).
Revenue growth at constant exchange rates (%)	None	Not applicable	The period-on-period change in revenue which is calculated by retranslating the previous year's revenue at the average actual exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).
Revenue yield (%)	None	Not applicable	Revenue yield is reported revenue divided by average net receivables and is an indicator of the gross return being generated from average net receivables.
Impairment as a percentage of revenue (%)	None	Not applicable	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business. This measure is reported on a rolling annual basis (annualised).
Cost-income ratio (%)	None	Not applicable	The cost-income ratio is other costs divided by reported revenue. Other costs represent all operating costs with the exception of amounts paid to agents as collecting commission. This measure is reported on a rolling annual basis (annualised). This is useful for comparing performance across markets.
Like-for-like profit growth or contraction (£m)	None	Not applicable	The period-on-period change in profit adjusted for the impact of exchange rates and, where appropriate, investment in new business development opportunities. The impact of exchange rates is calculated by retranslating the previous period's profit at the current year's average exchange rate. This measure is presented as a means of reporting like-for-like profit movements.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
<b>Balance sheet and returns measures</b>			
Return on assets ('ROA')(%)	None	Not applicable	Calculated as profit before interest less tax at the effective tax rate divided by average net receivables. We believe that ROA is a good measure of the financial performance of our businesses, showing the ongoing return on the total equity and debt capital invested in average net receivables of our operating segments and the Group.
Return on equity ('ROE') (%)	None	Not applicable	Calculated as profit after tax divided by average opening and closing equity. It is used as a measure of overall shareholder returns.
Equity to receivables ratio (%)	None	Not applicable	Total equity divided by amounts receivable from customers. This is a measure of balance sheet strength and the Group targets a ratio of around 40%.
Headroom (£m)	Undrawn external bank facilities	None	Headroom is an alternative term for undrawn external bank facilities.
<b>Other measures</b>			
Customers	None	Not applicable	Customers that are being served by our agents or through our money transfer product in the home credit business and customers that are not in default in our digital business.
Customer retention (%)	None	Not applicable	The proportion of customers that are retained for their third or subsequent loan. Our ability to retain customers is central to achieving our strategy and is an indicator of the quality of our customer service. We do not retain customers who have a poor payment history as it can create a continuing impairment risk and runs counter to our responsible lending commitments.
Employees and Agents	Employee information	Not applicable	Agents are self-employed individuals who represent the Group's subsidiaries and are engaged under civil contracts with the exception of Hungary and Romania where they are employees engaged under employment contracts due to local regulatory reasons.
Agent and employee retention (%)	None	Not applicable	This measure represents the proportion of our employees and agents that have been working for or representing the Group for more than 12 months. Experienced people help us to achieve and sustain strong customer relationships and a high quality service, both of which are central to achieving good customer retention. Good agent and employee retention also helps reduce costs of recruitment and training, enabling more investment in people development.

**Constant exchange rate reconciliations**

The year-on-year change in profit and loss accounts is calculated by retranslating the 2018 profit and loss account at the average actual exchange rates used in the current year.

2019 £m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Customers (000)	1,009	795	305	-	2,109
Credit issued	751.3	268.2	333.5	-	1,353.0
Average net receivables	562.0	164.4	260.2	-	986.6
Revenue	452.2	247.6	189.3	-	889.1
Impairment	(56.0)	(102.3)	(85.2)	-	(243.5)
Net revenue	396.2	145.3	104.1	-	645.6
Finance costs	(37.1)	(11.8)	(14.4)	(0.2)	(63.5)
Agents' commission	(51.1)	(29.9)	-	-	(81.0)
Other costs	(192.9)	(93.1)	(86.5)	(14.6)	(387.1)
<b>Profit/(loss) before tax</b>	<b>115.1</b>	<b>10.5</b>	<b>3.2</b>	<b>(14.8)</b>	<b>114.0</b>

**2018 performance at 2018 average foreign exchange rates**

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Customers (000)	1,092	917	292	-	2,301
Credit issued	757.8	291.0	311.8	-	1,360.6
Average net receivables	558.9	154.9	209.6	-	923.4
Revenue	493.3	226.1	147.0	-	866.4
Impairment	(88.5)	(82.9)	(55.6)	-	(227.0)
Net revenue	404.8	143.2	91.4	-	639.4
Finance costs	(35.3)	(11.3)	(11.9)	-	(58.5)
Agents' commission	(53.7)	(28.8)	-	-	(82.5)
Other costs	(202.0)	(87.4)	(85.1)	(14.6)	(389.1)
<b>Profit/(loss) before tax</b>	<b>113.8</b>	<b>15.7</b>	<b>(5.6)</b>	<b>(14.6)</b>	<b>109.3</b>

**Foreign exchange movements**

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Credit issued	(17.2)	12.7	(3.4)	-	(7.9)
Average net receivables	(11.6)	6.9	(2.5)	-	(7.2)
Revenue	(10.8)	10.0	(1.6)	-	(2.4)
Impairment	2.4	(3.5)	0.6	-	(0.5)
Net revenue	(8.4)	6.5	(1.0)	-	(2.9)
Finance costs	0.6	(0.5)	0.1	-	0.2
Agents' commission	1.2	(1.3)	-	-	(0.1)
Other costs	3.4	(3.7)	0.9	-	0.6
<b>Profit/(loss) before tax</b>	<b>(3.2)</b>	<b>1.0</b>	<b>-</b>	<b>-</b>	<b>(2.2)</b>

**2018 performance at 2019 average exchange rates**

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Credit issued	740.6	303.7	308.4	-	1,352.7
Average net receivables	547.3	161.8	207.1	-	916.2
Revenue	482.5	236.1	145.4	-	864.0
Impairment	(86.1)	(86.4)	(55.0)	-	(227.5)
Net revenue	396.4	149.7	90.4	-	636.5
Finance costs	(34.7)	(11.8)	(11.8)	-	(58.3)
Agents' commission	(52.5)	(30.1)	-	-	(82.6)
Other costs	(198.6)	(91.1)	(84.2)	(14.6)	(388.5)
<b>Profit/(loss) before tax</b>	<b>110.6</b>	<b>16.7</b>	<b>(5.6)</b>	<b>(14.6)</b>	<b>107.1</b>



## Year-on-year movement at constant exchange rates

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Credit issued	1.4%	(11.7%)	8.1%	-	-
Average net receivables	2.7%	1.6%	25.6%	-	7.7%
Revenue	(6.3%)	4.9%	30.2%	-	2.9%
Impairment	35.0%	(18.4%)	(54.9%)	-	(7.0%)
Net revenue	(0.1%)	(2.9%)	15.2%	-	1.4%
Finance costs	(6.9%)	-	(22.0%)	(100.0%)	(8.9%)
Agents' commission	2.7%	0.7%	-	-	1.9%
Other costs	2.9%	(2.2%)	(2.7%)	-	0.4%

## Return on assets (ROA)

ROA is calculated as profit before interest after tax divided by average receivables

2019	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Profit before tax (£m)	115.1	10.5	3.2	(14.8)	114.0
Interest (£m)	37.1	11.8	14.4	0.2	63.5
Profit before interest and tax (£m)	152.2	22.3	17.6	(14.6)	177.5
Taxation (£m)	(56.3)	(8.3)	(6.5)	5.4	(65.7)
Profit before interest after tax (£m)	95.9	14.0	11.1	(9.2)	111.8
Average net receivables (£m)	562.0	164.4	260.2	-	986.6
<b>Return on assets (ROA)</b>	<b>17.1%</b>	<b>8.5%</b>	<b>4.3%</b>	<b>-</b>	<b>11.3%</b>

2018	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Profit before tax (£m)	113.8	15.7	(5.6)	(14.6)	109.3
Interest (£m)	35.3	11.3	11.9	-	58.5
Profit before interest and tax (£m)	149.1	27.0	6.3	(14.6)	167.8
Taxation (£m)	(46.2)	(8.4)	(2.0)	4.5	(52.1)
Profit before interest after tax (£m)	102.9	18.6	4.3	(10.1)	115.7
Average net receivables (£m)	558.9	154.9	209.6	-	923.4
<b>Return on assets (ROA)</b>	<b>18.4%</b>	<b>12.0%</b>	<b>2.1%</b>	<b>-</b>	<b>12.5%</b>

## Return on equity (ROE)

ROE is calculated as profit after tax divided by average net assets

	2019 £m	2018 £m	2017 £m
Equity (net assets)	436.4	433.0	389.5
Average equity	434.7	411.3	
Profit after tax	71.8	75.4	
<b>Return on equity</b>	<b>16.5%</b>	<b>18.3%</b>	

**Earnings before interest, tax, depreciation and amortisation (EBITDA)**

	2019 £m	2018 £m
Profit before tax	114.0	109.3
Add back:		
Interest	63.5	58.5
Depreciation	8.5	9.2
Right-of-use assets depreciation	9.1	-
Amortisation	14.8	14.5
<b>EBITDA</b>	<b>209.9</b>	<b>191.5</b>

**IAS39 Gearing**

IAS39 Net worth £m	2019 IFRS 9	2019 conversion	2019 IAS 39
Receivables	973.6	126.6	1,100.2
Deferred tax	131.7	(22.4)	109.3
Borrowings	(676.4)	-	(676.4)
Other net assets	7.5	-	(7.5)
Net assets	436.4	104.2	540.6

£m	2019 IAS 39
Net assets	540.6
Pension asset	(3.4)
Derivative asset / liability	15.9
<b>Net worth</b>	<b>553.1</b>
Net worth	553.1
Borrowings	(676.4)
<b>Gearing</b>	<b>1.2</b>

**IAS39 Interest cover**

IAS39 Interest cover £m	2019 IFRS 9	2019 conversion	2019 IAS 39
Profit before tax	114.0	(8.1)	105.9
Amortisation of intangible assets	-	-	14.8
Interest	63.5	(1.5)	62.0
Profit before tax, amortisation and interest			182.7

£m	2019 IAS39
Profit before tax, amortisation and interest	182.7
Interest	62.0
	2.9

**Financial calendar for 2020**

26 February	Announcement of 2019 full-year results
9 April	Ex-dividend date for final dividend
14 April	Record date for final dividend
21 April	DRIP cut-off date
30 April	AGM
11 May	Payment of 2019 final dividend
29 July	Announcement of 2020 half-year results
3 September	Ex-dividend date for interim dividend
4 September	Record date for interim dividend
11 September	DRIP cut-off date
2 October	Payment of 2020 interim dividend

**Dividend history**

Year	Payment date	Final dividend (p)	Payment date	Interim dividend (p)
2019	10 May 2019	7.80	4 October 2019	4.60

Details of previous dividend payments can be found on our website at [www.ipfin.co.uk](http://www.ipfin.co.uk)

**Dividends**

Dividends can be paid directly into a shareholder's bank or building society account. This ensures secure delivery and means that cleared funds are received on the payment date. For shareholders that are resident outside the UK, dividend payments are made by Link's International Payment Service and are paid in local currency. The Company offers a dividend reinvestment plan (DRIP). A DRIP is a convenient and easy way to build a shareholding by using cash dividends to buy additional shares rather than receiving a cheque or having your bank account credited with cash. To receive more information, change your preferred dividend payment method, or if you would like to participate in the DRIP, please contact the Company's registrar, Link Asset Services.

**Registrar**

Queries relating to your shareholdings including transfers, dividend payments/reinvestments, lost share certificates, duplicate accounts and amending personal details should be addressed to the Company's registrar:

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

**Telephone:**

0871 664 0300 (calls are charged at the standard geographic rate and will vary by provider). If you are calling from outside the UK please call +44 (0)371 644 0300 (calls outside the UK will be charged at the applicable international rate). Lines are open between 09:00 and 17:30,

Monday to Friday, excluding public holidays in England and Wales.

**Email:**

[enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)

**Website:**

[www.linkassetsservices.com](http://www.linkassetsservices.com)

**Go paperless**

Shareholders can register for electronic communications by visiting the website at [www.myipfshares.com](http://www.myipfshares.com).

Why receive information this way?

- Online access to personal shareholding information
- Ability to manage shareholding and personal details proactively
- Receive documents faster
- Helps save paper
- Savings on printing and delivery costs.

To register, shareholders will need their investor code, which is printed on correspondence received from Link. This service will require a user ID and password to be provided on registration.

**ShareGift**

If you have a small shareholding in International Personal Finance plc and it

would be uneconomical to sell the shares, you may wish to donate your shares to ShareGift (registered charity no. 1052686), which is an independent charity. ShareGift can amalgamate small shareholdings in order to sell the shares and pass the proceeds on to other charities. More information is available at [www.sharegift.org](http://www.sharegift.org) or telephone 020 7930 3737.

**Cautionary statement**

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



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## **International Personal Finance plc**

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Company number 6018973



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