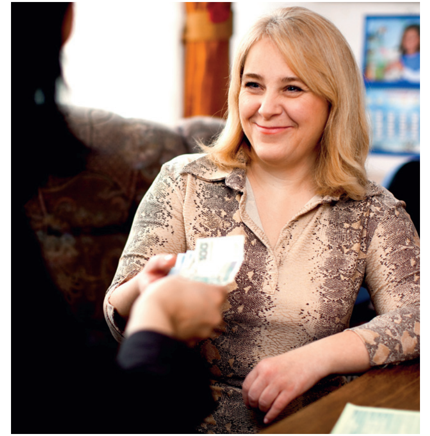

# A resilient growth business

Annual Report and
Financial Statements 2011

The human face of finance

International
Personal Finance

# Welcome to International Personal Finance ('IPF')

We are a growing international Group providing home credit to customers in six markets. Meeting the needs of our customers with small cash loans lies at the heart of our business. We aim to continue to deliver sustainable long-term profit growth by focusing on providing simple financial products and expanding our business in our existing territories and new markets.

**For more information visit www.ipfin.co.uk**

## How we report on sustainability

We believe that meeting our broad corporate and social responsibilities and satisfying our stakeholders' expectations are essential to maintaining a sustainable business and adding future shareholder value. As such, we publish an integrated Annual Report and Financial Statements, reporting our non-financial performance alongside our financial performance. At www.ipfin.co.uk/sustainability you can find details of activities being undertaken to improve our non-financial performance; our latest Global Reporting Initiative Index; reporting against the UN Global Compact; and progress towards our sustainability objectives.

**Cautionary statement**

The purpose of this report is to provide information to the members of the Company. 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 Services Authority). Nothing in this Annual Report and Financial Statements should be construed as a profit forecast.

**International Personal Finance plc. Company number: 6018973.**

Percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate ('CER') for 2011 in order to present the underlying performance variance.

# Highlights

Customers

**2.4 million, up 8.8%**

Credit issued

**£844.5 million, up 11.5%**

Net receivables

**£560.4 million, up 10.3%**

Revenue

**£649.5 million, up 7.4%**

Profit before taxation

**£100.5 million, up 9.1%***

Earnings per share

**28.55 pence, up 9.2%†**

Dividend per share

**7.1 pence, up 13.2%**

*2010 excluding an exceptional charge of £3.9 million.
†Adjusted to a constant 28% tax rate and with 2010 excluding an exceptional charge of £3.9 million.

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# An introduction to International Personal Finance

## Who we are

We are a leading international home credit business serving 2.4 million customers. We operate using the Provident brand in six markets: Poland, the Czech Republic, Slovakia, Hungary, Mexico and Romania. Within these countries there is increasing demand for credit but consumers are relatively underserved by financial institutions, particularly those people wanting smaller loans. We have more than 6,300 employees and 28,400 agents.

## What we do

We offer a personal home credit service to our customers who want to borrow money quickly and in a manageable and transparent way.

Our home credit product comprises two core elements:

1. a small sum, short-term unsecured cash loan, ranging from £50 to £1,000 repaid over a period of around 12 months by money transfer to a bank account; and
2. an optional personal home collection service provided by dedicated agents who deliver the loan to and collect repayments from the customer's home each week. A key feature of this option is that customers who choose the agent service benefit from no extra charges for missed or late repayments.

## Financial inclusion

We help bring customers into the financial mainstream by providing home credit to those who need it.

Many of our customers do not have a credit history and so may be excluded from other credit products. Some may be taking a loan for the first time, while others may have used retail credit or borrowed money from family and friends in the past. In addition to those living in urban areas, we serve those from rural communities who may not have the means to travel long distances to a bank. Some of our customers use our loans for education or to help fund a small business, which means access to credit in the short term can lead to financial well-being in the long term.

## A sustainable business model

Our approach to sustainability balances short-term results with long-term growth. We are making our business model more effective and efficient and so better able to deliver shareholder value.

Our profit comes from lending responsibly to new and existing customers while managing our cost base to ensure efficient use of resources. Increased profit comes from customer growth and lending more to those who have shown their ability to repay. High levels of service which drive customer satisfaction are therefore key to retention and growth.

Central to our approach is regular face to face contact with customers. Weekly home visits by our agents help customers stay in control of their repayments. Our agents are also best placed to judge potential new loan opportunities.

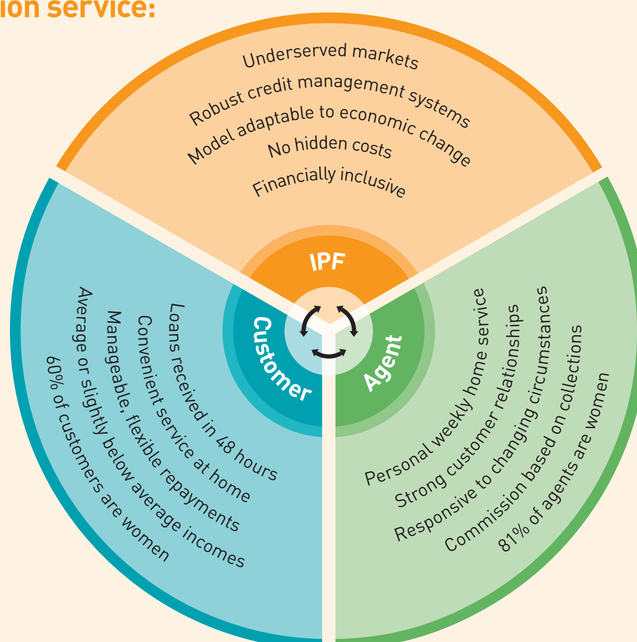
Read more → www.ipfin.co.uk

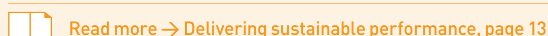
## Why our business model works

Our business model is built on responsible lending. Before we advance a loan to a customer we ensure that we understand their circumstances and offer credit in an affordable, straightforward and flexible way.

- our loans have affordable, transparent repayments;
- we only lend amounts that customers can afford to repay;
- we have a 'low and grow' approach. For new customers who pass our application scoring system we lend smaller amounts over shorter terms. Once customers have shown their ability to repay we may offer larger, longer-term loans;
- it is not in our agents' interest to offer loans that customers cannot repay; agent income is based largely on the amount of money collected;
- customers have the option to repay their loan using our home collection service or by money transfer to a bank account;
- weekly agent visits help customers manage their budgets. Repaying small amounts regularly establishes a routine of repaying their loans on time;
- we only lend to those with a regular secure income and do not grant loans to people claiming unemployment benefit; and
- financial education resources are made available to our customers.

## For customers choosing the agent home collection service:





Read more → Delivering sustainable performance, page 13

Read more → Operational review, page 28

# Our investment proposition

Our business generates a healthy return on equity and we maintain a well-capitalised balance sheet to support our long-term growth.

Growth is fundamental to fulfilling our vision and achieving our plans. We are resilient and profitable, focused on markets where we have identified significant growth opportunities.

We have a clear and consistent strategy supported by a leading brand presence in our markets, strong risk management systems and a customer centric approach.

## Resilient business model

The resilience of our business model comes from close, weekly contact with our customers, the effectiveness of our risk and credit systems and the short-term nature of our loan book. We are proving this resilience as we manage the business successfully through the global economic downturn.

Even during challenging times, the business model generates good margins and returns. In 2011 we generated a profit margin of 15.5% and a return on capital employed of 22.7%.

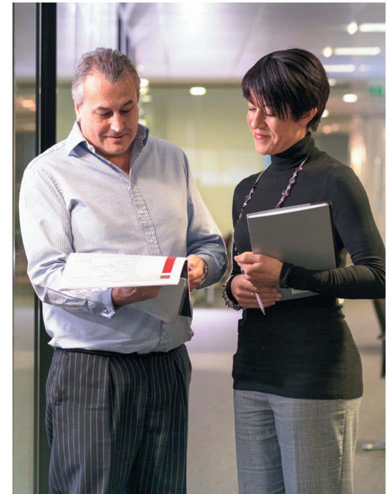
**£100.5 million profit**

**15.5% profit margin**

Read more → Financial review, page 34

## Effective risk management systems

Effective risk management underpins our business and is embedded in our approach to short and long-term decision taking. This is supported by well-developed systems and processes that reach from the customer to the Board and touch all of our activities, from provisioning systems, credit losses and funding to agent safety.



**25.8% impairment as a % of revenue**

**2.2% credit exceptions**

## Experienced and motivated people

The engagement of our people and the leadership skills and expertise of our Board and senior management are key to delivering success. Our development programmes focus on building the skills of our managers to create the next generation of leaders.

Our Board has extensive experience of operating public listed companies in international markets. Our Senior Management Group has a strong and successful track record and combines long-term home credit expertise with wider financial services experience.

## Strong financial profile

Our home credit business model is cash and capital generative. We are well capitalised with shareholders' equity representing 58.5% of receivables, the equivalent of a bank's Tier 1 ratio. In 2011, the Group generated £144.3 million of cash from operations before growing receivables by £61.6 million. We have a diversified debt funding structure, with a mix of bond and bank facilities and a balanced maturity profile. We have good cover against all of our core funding covenants.

## Good profitable growth prospects

We are improving and expanding our operations in existing markets to deliver further growth and profitability. We also see opportunities in new markets around the world where demand for small sum cash loans is increasing.

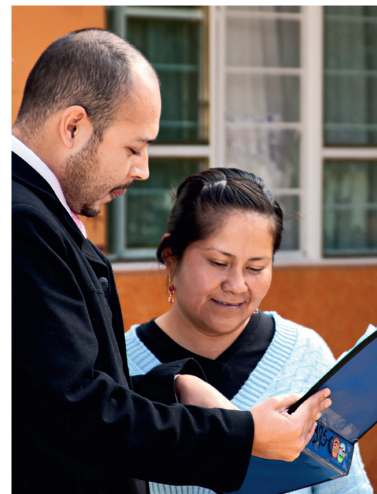
Improving market penetration in under-represented regions in our established markets will result in strong profit growth as it leverages our existing investment in country-wide branch infrastructure. In our developing markets we also see the opportunity for further geographic expansion.

**81.1% employee retention**

**59.1% agent retention**

**58.5% equity to receivables ratio**

**0.8x gearing**



**8 new branches**

**9% growth in customers**

# Our operations

We operate in six countries.

Thanks to the nature of our business model, wherever we work, our agents know their customers personally and understand their needs – in 2011, they made more than 100 million home visits.

Our international operations are supported by a central team based in Leeds in the UK.

## Established markets

Our established markets comprise Poland, the Czech Republic, Slovakia and Hungary.

## Poland

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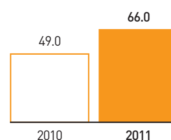
A strong performance, excellent growth, stable credit quality and controlled costs.

**Profit before tax (£m)**




Established
**1997**

Population
**38.2m**

Number of customers
**834,000**

Number of employees
**2,000**

Number of agents
**9,400**

Number of branches
**79**

Average credit issued per customer
**£394**

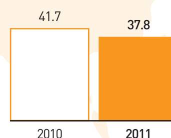
Currency
**Polish zloty**

## Czech Republic and Slovakia

Page 31

A solid performance with increased revenue offset by higher funding margins and higher costs of customer rebates.

**Profit before tax (£m)**




Czech Rep. established
**1997**

Czech Rep. population
**10.5m**

Slovakia established
**2001**

Slovakia population
**5.4m**

Number of customers
**400,000**

Number of employees
**940**

Number of agents
**4,400**

Number of branches
**36**

Average credit issued per customer
**£533**

Czech Rep. currency
**Czech crown**

Slovakia currency
**Euro**

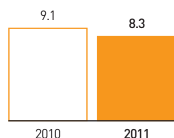
Read more → Operational review, page 28

## Hungary

Page 32

Performed well and delivered good growth and excellent credit quality. Higher rebate and finance costs impacted profit.

**Profit before tax (£m)**




| | |
|---|---|
| Established **2001** | Number of branches **19** |
| Population **10.0m** | Average credit issued per customer **£426** |
| Number of customers **252,000** | Currency **Hungarian forint** |
| Number of employees **700** | |
| Number of agents **2,800*** | |

*Agents in Hungary are employed by the Company.

## Developing markets

Mexico and Romania – our two developing markets where geographic expansion is still under way.

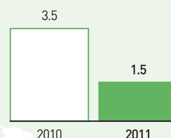
Mexico

## Mexico

Page 32

Investment in new operating structure generated improved performance, much lower impairment and stronger growth but reduced short-term profit.

**Profit before tax (£m)**




| | |
|---|---|
| Established **2003** | Number of branches **52** |
| Population **112.3m** | Average credit issued per customer **£196** |
| Number of customers **671,000** | Currency **Mexican peso** |
| Number of employees **1,900** | |
| Number of agents **8,300** | |

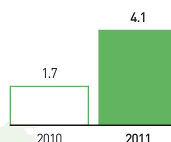
Romania

## Romania

Page 33

Market development on track – excellent result and strong growth.

**Profit before tax (£m)**




| | |
|---|---|
| Established **2006** | Number of branches **17** |
| Population **22.2m** | Average credit issued per customer **£385** |
| Number of customers **249,000** | Currency **Romanian leu** |
| Number of employees **640** | |
| Number of agents **3,500** | |

# Chairman's statement

**Christopher Rodrigues, Chairman**

**Since our demerger from Provident Financial plc in 2007 and despite recent challenging economic conditions, we have more than doubled our profit before tax and increased our dividends to shareholders by almost 50%.**

This is the fifth time International Personal Finance has reported as a public company and it is an appropriate time to put our performance into perspective. In a period of unprecedented global economic turmoil and uncertainty my colleagues have continued to deliver improved financial performance driven by strong growth in customer numbers and credit issued. All our markets were profitable in the year.

Almost five years ago we became a public company and we set ourselves four strategic goals:

- we planned to build our operations in Poland, Hungary, the Czech Republic and Slovakia into a business delivering over £95 million in profits. In 2011 these markets generated a profit of £112.1 million. Goal met – but there is still real potential for further growth;
- we planned to take our developing markets in Romania and Mexico into profit. Last year they contributed £5.6 million. Goal met – but we still have a long way to go to achieve their full profit potential;
- we planned to enter new markets. We bought a small bank in Russia in late 2007 and began a market test the following year. We withdrew in 2009 at the height of the financial crisis. We continue to believe in the potential for new markets but will not rush into them until we get better line of sight on financial market stability; and
- we planned to improve the capital efficiency of the business when the current turmoil in credit markets has passed. It hasn't, but our ambition remains the same. Meanwhile, we are glad that our growing lending book is funded in a much more diversified manner than it was when we floated. This stands us in good stead in these uncertain times.

In July 2007, we said we aimed to be a leading international provider of simple financial products and services to people of modest means. We said we would achieve this by building close, long-term relationships with our customers, our people, our business partners and the communities in which we work, through trustworthy and responsible behaviour.

Those ambitions remain unchanged and I believe we have made some real progress in the past five years. Clear evidence of this can be found in the reporting against sustainable business performance measures in our Annual Report this year.

We are doing some great work to improve the service we offer customers. We continue to cut out unnecessary bureaucracy. We are giving local employees greater freedom to operate and continue to invest in local community and financial education projects across the Group.

We also have a proactive approach to establishing relationships with all our stakeholders. These groups help us to understand the impact of our business, products and services on society. By investing in improving levels of financial literacy and giving access to credit to those who have been financially excluded, we are making a positive impact in bringing our customers into the financial mainstream.

Annual Reports now include extensive coverage on Governance, Risk Management and financial performance. I do not propose to cover these items in my statement to you as they are covered in depth elsewhere in the report but I do want to take this opportunity to extend my thanks to our people, particularly our agents, without whom we would not have such a successful business, and to the Board for the support they give the Executive team in running the business. Particular thanks are due to Charles Gregson who leaves after 17 years serving on the IPF Board and that of our previous parent, Provident Financial.

Finally, I want to express my appreciation for the contribution made by our Chief Executive, John Harnett, who leaves us at the end of March. The story of IPF as a public company is the story of his leadership. He has navigated our ship successfully through the most testing of seas and we will miss him. Nonetheless the Board believes that we have found an excellent new helmsman in Gerard Ryan who joined us as CEO (Designate) in January and will become CEO at the end of March.

Despite challenging global economic conditions, IPF delivered record results in 2011 and has made an encouraging start to 2012. Whilst the economic background continues to be uncertain, we have good prospects for growth and are confident that the business will continue to perform well.

**Christopher Rodrigues**
Chairman

# Overview

## What's in this section

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**John Harnett, Chief Executive Officer**

**I step down as Chief Executive Officer at the end of March 2012, after six years at the helm, during which time we have demerged from Provident Financial plc and increased pre-tax profit from £39 million to over £100 million. This track record of success is due to the combined efforts of a team of talented people who displayed great skill, dedication and commitment to growing the business during a period of unparalleled global economic turbulence.**

I have been asked what aspects of this performance please me most: it is the maturing of the business as a fully independent listed company, the development of our people and the creation of a culture that embraces continuous improvement. These are strong foundations and I am confident that my successor, Gerard Ryan, will build on these to lead the business to even greater success.

On a personal note, I wish to thank everyone at IPF for making the past six years so fulfilling and rewarding.

## Review of 2011

Profit before taxation was increased by 9% to a record £100.5 million, driven by good growth in customers and credit issued, improved credit quality and continued cost control. This allowed the business to make good progress despite the expected increase in funding costs following the 2010 refinancing and higher early settlement rebates arising from the implementation of the EU Consumer Credit Directive, which together totalled £23.6 million.

At the start of 2011 our key objective was to accelerate growth against a backdrop of improving economic conditions in all our markets. Our plan was to drive growth by recruiting more agents, increasing investment in marketing and by the selective easing of credit controls. We increased agent numbers by 13% and marketing expenditure by £2.1 million, and this helped to deliver a 9% increase in customer numbers and an 11% increase in average net receivables for the full year. As the global economic environment deteriorated in the second half of the year and consumer confidence in our European markets weakened, increased caution amongst European agents and customers led to a slowdown in growth for the Group.

Achieving the right balance between growth and credit quality can be challenging and we were pleased that alongside stronger growth we were able to reduce the Group impairment charge as a percentage of revenue by 1.8 percentage points to 25.8%.

As expected, following last year's refinancing which delivered longer-term, diversified debt funding, finance costs increased sharply, up by 28% to £42.9 million. Other costs increased in line with growth in the business, with around two thirds of the increase reflecting the additional investment in new branches and field management to increase our geographical penetration as well as additional marketing spend.

## Market overview

We operate in the consumer credit sector of the financial services industry, which includes credit cards, unsecured personal loans, retail credit, overdrafts, home credit, home shopping catalogues and pawn broking lending. According to Euromonitor the sector is worth approximately £71 billion in the markets we operate.

Demand for credit in emerging markets is on a long-term growth trend. In the immediate aftermath of the global recession, however, increased caution has dampened growth and in some markets there has been a reduction in the use of consumer credit. At the same time, many banks have curtailed or closed their consumer credit operations and, in these less competitive conditions, we have seen our credit issued increasing and our market share growing.

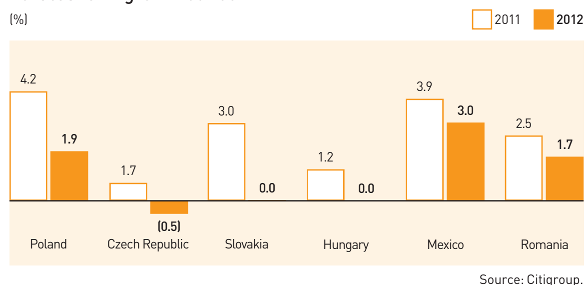
## Economic environment

Economic conditions in Europe are uncertain and economic growth slowed rapidly during the second half of 2011. Consumer confidence in the first half of 2011 was broadly stable but in quarter 3, as the eurozone financial crisis impacted markets around the world, confidence in our European markets began to decrease. We expect that consumers will remain cautious in 2012, but we also expect accelerated growth opportunities subsequently as consumer confidence returns while levels of competition remain subdued.

The European economies in which we operate are significantly exposed to developed Western European economies. It is notable however that our largest market, Poland has seen consistent gross domestic product ('GDP') growth throughout the global economic downturn and continues to show itself to have a resilient domestic economy. Our central assumption is for slow economic growth across our European markets as a whole during 2012. However, a move back into recession is also a real possibility. We are well prepared for such an outcome and we proved our ability to handle economic downturns during 2009.

Growth of the Mexican economy, with its stronger links to the United States, has not been impacted to the same extent as our European markets. In this market, growth is supported by increasing exports and stronger domestic demand.

**Forecast GDP growth outlook**




Source: Citigroup.

## Competitive landscape

Since the 2009 economic downturn many lenders in our European markets have reduced access to credit for consumers or withdrawn from the market completely.

In the first half of 2011 we saw increased marketing activity by banks and retail lenders in Poland and the Czech Republic but this has since reduced.

In Mexico, group lending models compete in the small sum loan environment as do retail credit and pawn broking. Currently, there are no other home credit providers.

# Our strategy

Our aim is to deliver sustainable long-term shareholder value. We concentrate on achieving three strategic objectives which are aimed at creating, growing and improving long-term financial and non-financial performance.

**Our goal**
Sustainable long-term shareholder value

We believe in making decisions which will have positive impacts in the longer term.

**Our vision**
Make a difference in everyday life by offering simple financial solutions

We believe in offering products and services that fit our customers' needs.

**Our strategic objectives**
1. Optimise profitability of established markets
2. Realise profit potential of developing markets
3. Enter new markets

We are focused and disciplined on the delivery of our objectives.

**Our values**
We are respectful
We are responsible
We are straightforward

We will make our decisions based on a set of ethical policies.

Read more → Operational review, page 28

# Delivering sustainable performance



**A key focus in helping to deliver our strategic objectives is to create an organisation that encourages a more entrepreneurial, localised approach to operational management and performance.**

**We aim to deliver this by empowering those employees who are closest to our customers to create and manage local business plans, budgets and performance targets, and to support them in gaining the knowledge, skills and behaviours necessary for their continued success.**

In 2011 we implemented a framework for a standard organisational approach towards succession and resource planning. To support talent development and business growth, we have an accelerated development programme for senior operational managers which will produce future leaders with a broad business perspective.

## Stakeholder engagement

Stakeholder engagement is an important part of our approach to sustainability. It helps us to understand the impact of our business on society, better manage risk and identify opportunities for growth.

In 2011 we held stakeholder workshops in all our markets and a roundtable in Brussels. These events give our stakeholders the opportunity to engage directly with IPF. In most of our markets we are the only financial services business engaging in such open dialogue. Issues raised included mobile payment technology, the social impact of our products and services, financial education, product diversification and how we work potentially with social service providers and public authorities to better address poverty.

We report on stakeholder feedback each year and our response can be found at www.ipfin.co.uk/sustainability.

## Customer retention and lifetime value

Repeat business tells us our customers like our service and it allows us to take a responsible, long-term approach to lending, ensuring we increase loan size gradually and do not overstretch our customers.

Credit risk management is based primarily around the relationship between agents and their customers. As the face of our business, agents are key to assessing a customer's capacity to repay, and are supported by sophisticated credit risk management systems.

# Delivering sustainable performance continued

## Customer satisfaction

Delivering a credit product that our customers want together with excellent customer service is vital to achieving our strategic objectives. We realise customer expectations are rising and need to respond by listening and continually improving the service that our people provide. That's why we interview 30,000 customers each month, asking them to score us on service levels.

## Branch-based credit strategies

A major change supporting the sustainable growth of our business has been the move from a countrywide blanket credit policy to a localised branch-based approach over the past three years. This has enabled us to be more precise in our credit management, respond to local conditions and identify opportunities and risks which are not apparent at a country level.

Branch performance is monitored monthly and we use this data to adjust credit rules, marketing spend and incentives at branch level. For example, in a branch where credit performance is very good, we can relax credit settings and implement local marketing spend for growth and incentives focused primarily on sales. If a branch has poorer credit performance then we can tighten credit settings, limit marketing activity and the operational and incentive focus will be on collecting arrears.

These controls are highly flexible, allowing management to adapt to the changing business environment. This approach has been key in successfully controlling credit quality during the global economic downturn.

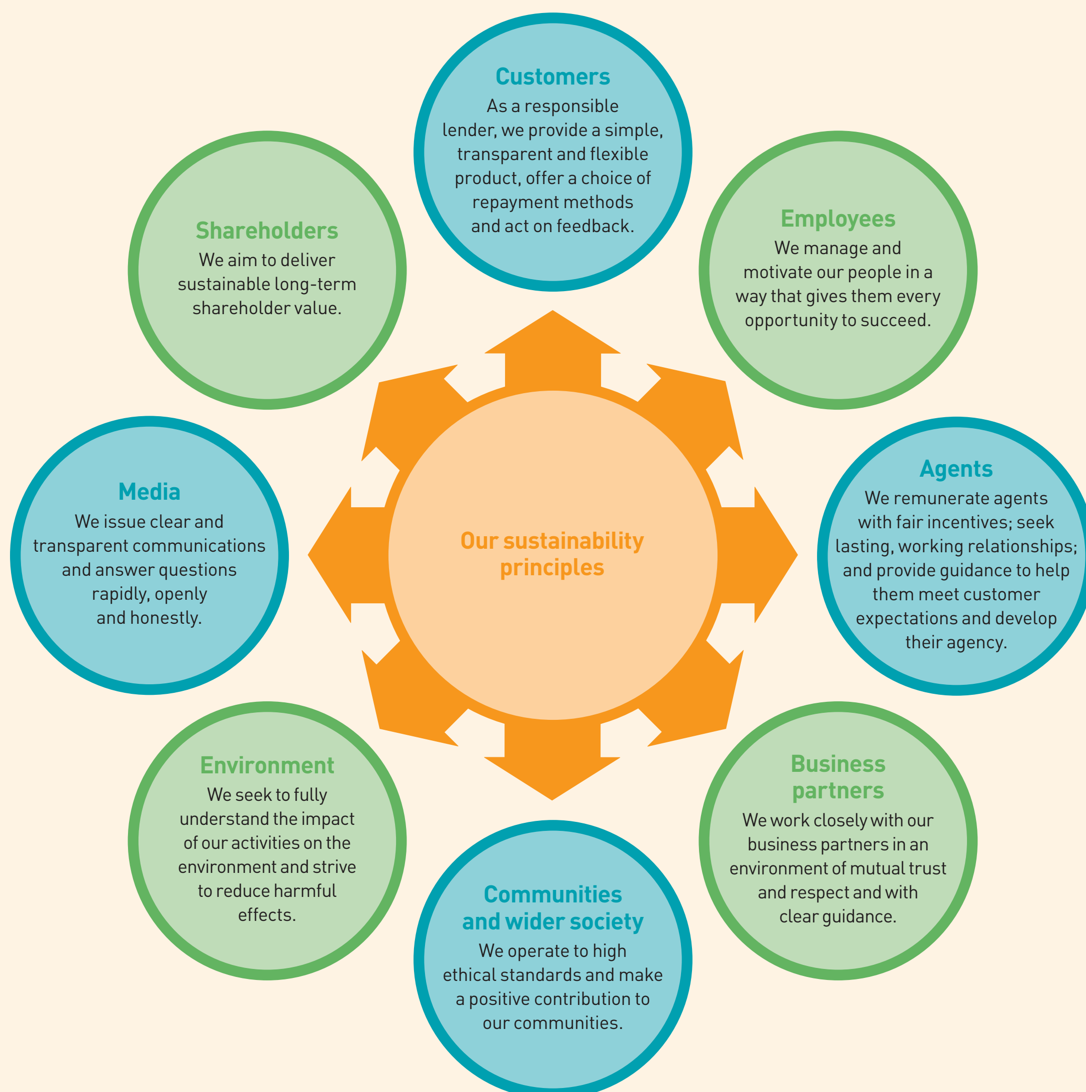
## Balanced scorecard

To ensure we have a clear link between our strategy and roles, and to drive performance through team alignment, we are implementing a balanced scorecard approach. Our aim is to assess and reward performance across a core set of measures. These new measures will target the core performance drivers that lead to business success. The six key areas are:

- **people** – recruit and retain the right people who are fully engaged;
- **safety and operational excellence** – operate in a safe way in compliance with operational framework;
- **customer service** – leads to satisfied customers who stay with us and recommend us to others;
- **building future value** – generating more selling opportunities and increased sales through more quality customers;
- **collections and arrears** – improving collections and reducing bad debt which, in turn, provides more sales opportunities; and
- **financial** – all leading to the financial success of our business, shared by all our stakeholders.

## Sustainability principles

Everything we do is built on the foundations of our sustainability principles. In 2011 we carried out work to formalise these principles and build a stronger management framework to support their use in everyday business decisions. These define how we treat each stakeholder group and underpin our vision of being a sustainable business, our corporate behaviour and our business practices.



# Delivering sustainable performance continued

## Investing in social issues

We have implemented community investment programmes in all our markets. These programmes focus on benefiting the communities in which we operate.

In 2011, our overall Group contribution to charities and community organisations was £1.2 million (excluding £100,000 of fundraising), representing 1.2% of pre-tax profit.

We invest in our communities through social inclusion and financial education programmes. This includes giving grants to projects that offer training and skills development to disadvantaged people looking for work; financial advice initiatives; and projects that help to regenerate our communities through enterprise.

Our employee volunteering programme is another important way for us to contribute to our communities. The programme engages our people by giving them the chance to enhance their job-related skills while gaining the satisfaction of helping in their local area. We support projects that have been initiated by employees while seeking to invest in the same type of projects that we do through our grant giving. In 2011, 2,800 employees volunteered 11,500 working hours to help local communities.

## Financial education

It is important to us that consumers are well informed; we want our customers to make the right choices, manage their household finances and understand the terms and conditions of their loans.

We work with charities, non-governmental and/or consumer protection organisations across all our markets. Our financial education work is also promoted to our customers, agents and employees. In 2011 we trained 200 professionals who have in turn disseminated financial skills to over 20,000 people.

Activities involve promoting financial education in areas where research has shown low levels of awareness and gaps in the provision of financial education. We do this through collaborative working groups, communication and media campaigns, and running money management workshops with partners.

Our Family Budget Programme in Romania is fuelling the financial capability debate through media engagement and, as a founding member of the Romania Association for Financial Education, we initiated a public consultation on the issue with the aim of developing a national strategy. We have also instigated a financial education media campaign in Poland reaching six million people and through our Academy of Family Finance, we have run 82 education workshops since its launch in 2007 reaching 3,000 individuals.

## Awards, reporting and benchmarking

In 2011 we were included in the FTSE4Good index for the fourth consecutive year. Each year we report against the Global Reporting Initiative Sustainability Guidelines and for the third consecutive year our level of disclosure and quality of content has been rated as A+. We also report annually against the UN Global Compact Principles and take part in the Carbon Disclosure Project which is an investor initiative seeking corporate disclosure on carbon emissions, risks and management.

Our operations across the Group also received external recognition and a number of awards throughout the year:

- our business in the Czech Republic was included in the Index of Ethical Lenders and named as the non-banking lender with the most ethical approach to customers recognising our commitment to transparency;
- we came third in an award for responsible financial companies from Poland's leading economic daily newspaper, Dziennik Gazeta Prawna;
- in Hungary we won two Client First 'Excellence in Customer Service' awards for outstanding personal customer service and our call centre service; and
- in Mexico we were recognised for the sixth consecutive year as a socially responsible company by the Mexican Centre of Philanthropy. Our Mexican call centre also received four awards in the 'National Award in Customer Relations' from the Mexican Institute of Teleservices.

## Regulation

Our business complies with the local regulations in each market. We work closely with policy makers and legislators in each country and at EU level to ensure the impact of proposed or new legislation on consumers or our business is understood.

## Public policy

We welcome policy initiatives that contribute to a well-functioning market in consumer credit and work positively with our regulators across the Group. We believe that good regulation has to be fit for purpose and that a 'one size fits all' approach is not effective.

We have a unique relationship with our customers. The face to face, personal nature of our service differs to that of banks, giving us an important perspective on our customers' aspirations and needs. This gives us an insight into the likely impact of government policy proposals that could affect our customer base. We take a leadership role in regulatory debate and discussion, and proactively reflect these realities to policy makers, to help them understand our business and develop policies that work for consumers.

## Environment

We have a responsibility to run the business in a way that creates the least possible harm to the environment. Our strategy is based on a precautionary approach to environmental management and is driven by the Group environmental policy, a management system and annual audits to the international ISO 14001 standard, and annual targets which are set and monitored by working groups in each region as well as regular communication and training.

Due to the nature of the business model involving weekly customer home visits, our most significant environmental impact is from the use of vehicles. This constitutes approximately 74% of our carbon footprint. In 2011 we appointed a specialist advisor to support our work in this area, to help provide new solutions to meet our target of reducing our carbon footprint by 10% by the end of 2013 and to improve cost savings as a result of environmental initiatives.

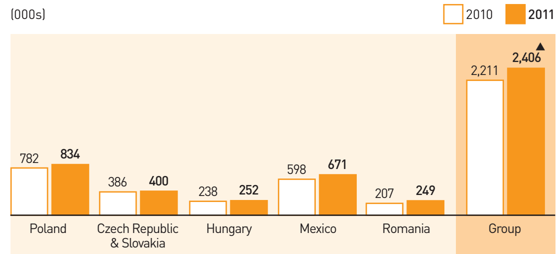
In 2011, our carbon footprint was 11.7kg/$CO_2$ per customer, representing a 3.9% decrease on 2010.

# Key Performance Indicators – Financial

We use Key Performance Indicators (KPIs) to measure our performance against our strategy.

The KPIs marked▲ have been assured externally.

## Customers

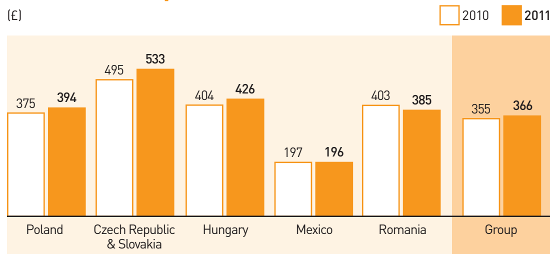



The total number of customers across the Group. At the end of 2011 we had 2.4 million customers, an increase of 8.8% on 2010.

### Strategic link

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

## Credit issued per customer



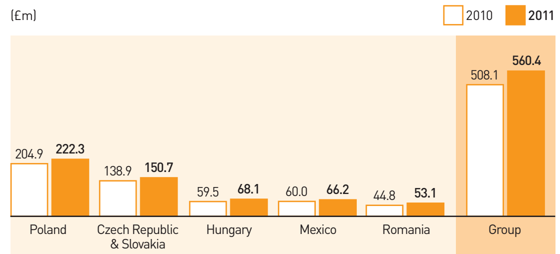

The value of money loaned to customers normally measured over the previous 12 months. In 2011, credit issued per customer was £366, an increase of 3.1% on 2010 at constant exchange rates.

### Strategic link

- The main driver of profit per customer is the amount of credit issued per customer.
- Credit issued per customer should increase over time and is driven partly by good repayment behaviour. We adopt a 'low and grow' strategy and only issue more credit to a customer once their credit worthiness is proven.

Prior year figures are restated at constant exchange rates.

## Net customer receivables



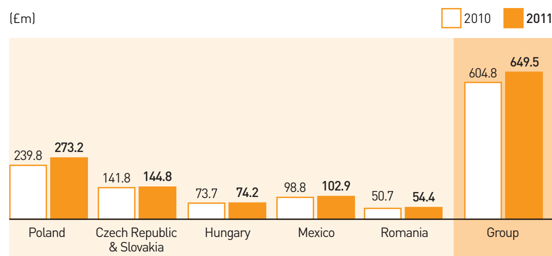

The amount outstanding from customers for loans issued less impairment provisions calculated in accordance with our IFRS compliant accounting policies. At the end of 2011 net customer receivables were £560.4 million, up 10.3% on 2010 at constant exchange rates.

### Strategic link

- The revenues we earn are calculated by reference to the effective interest rates of the loans we issue and the value of the net customer receivables outstanding.

Prior year figures are restated at constant exchange rates.

## Revenue



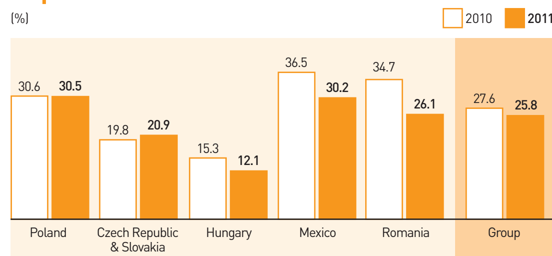

Income generated from customer receivables. In 2011 revenue was £649.5 million, an increase of 7.4% on 2010.

### Strategic link

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

Prior year figures are restated at constant exchange rates.

## Impairment




The amount charged as a cost to the income statement as a result of customers defaulting on contractual loan agreements stated as a percentage of revenue – we account prudently and thus a default is classified as the failure to make any weekly payment in full. The cost includes the value of repayments written off as irrecoverable as well as provisions for expected future defaults. In 2011 impairment reduced from 27.6% to 25.8% of revenue.

### Strategic link

- Profitability is maximised by optimising the balance between growth and credit quality.
- Impairment as a percentage of revenue is a good measure for comparing performance across markets.

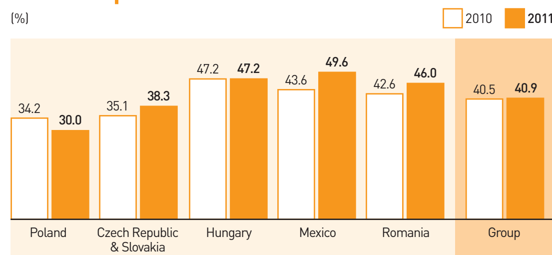
## Gross cash loss ('GCL')

The expected total value of contractual customer repayments that will not be collected and will ultimately be written off for any loan or group of loans. Until collections for any cohort are complete, the GCL is a composite of actual and forecast cash collections.

### Strategic link

- A leading-edge measure of the quality of credit issued. Forecasts are based on the actual performance of previous lending.
- The higher the expected GCL, the higher the impairment charge will be in the periods after the loans are issued.

## Direct expenses as % of revenue




The direct expenses of running the business excluding agents' commission. Expressing expenses as a percentage of revenue is useful for comparing performance across markets. The cost: income ratio increased slightly to 40.9% due to the impact that higher rebates had on reported revenue.

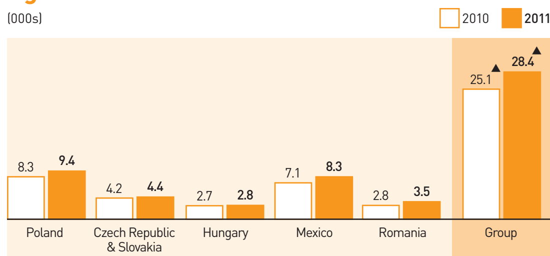
### Strategic link

- The lower our expenses to revenue ratio, the more efficient we are and the more profit we make.

▲These KPIs have been externally assured by PwC in accordance with the International Standard on Assurance Engagements (ISAE 3000). Management's basis of reporting can be found at www.ipfin.co.uk/sustainability/reporting/basisofreporting. Also see the independent assurance report on page 71.

# Key Performance Indicators – Non-financial

## Agents




**Definition**

The number of agents across the Group. At the end of 2011 we had 28,400 agents, an increase of 13.1% on 2010.

**Strategic link**

- The number of agents determines directly the number of customers we can serve.
- We focus on identifying high performing agents and are working to select and manage the agent portfolio further on the basis of performance.

## Employee and agent retention

**Employees**

| 2010 | 2011 |
|---|---|
| 79.0% | 81.1% |

**Agents**

| 2010 | 2011 |
|---|---|
| 57.0% | 59.1% |

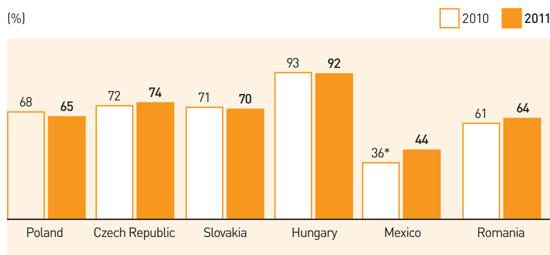
**Definition**

The proportion of employees and agents who have been working with us for more than 12 months. Both employee and agent retention improved slightly on 2010.

**Strategic link**

- Experienced employees and agents help us achieve and sustain strong customer relationships and a high quality of service, which are central to achieving good customer retention.
- Good retention helps reduce costs of recruitment, training and operating costs, enabling more investment to be directed to development activity.

## Aided brand awareness




**Definition**

The proportion of the adult population who recognise our brand when prompted with our logo or company name. Awareness in our established markets is relatively high and stable. In Mexico and Romania, where we are expanding geographically brand awareness is growing.

**Strategic link**

- The higher the level of awareness, the higher the potential customer base becomes.
- The brand also plays a key role in attracting agents and employees.

*December 2009.

## Conversion rates

| 2010 | 2011 |
|---|---|
| 47.9% | 46.9% |

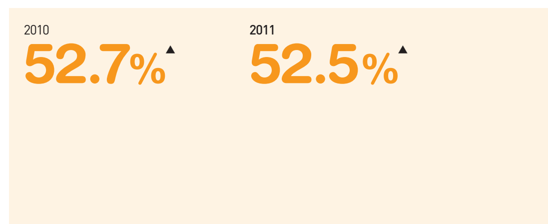
**Definition**

The proportion of potential new customers interested in having a loan, who actually receive one. Our conversion rate remained stable during a year where agent and customer caution grew.

**Strategic link**

- The recruitment of new customers is a key driver of total customers. A high conversion rate may indicate that we are recruiting too many high-risk customers. A low rate may mean that we are not providing an effective service.

## Customer retention




### Definition

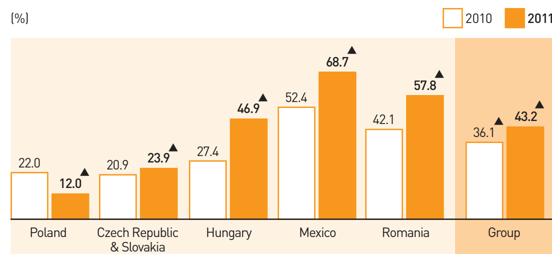
Our ability to retain customers is central to achieving our financial targets and growth ambitions. Customer retention in 2011 remained stable at 52.5%.

### Strategic link

- We do not retain customers who have a poor payment history as it can create a continuing impairment risk and potentially contravenes our commitment to responsible lending.
- Retention is the key indicator of the quality of our customer service as well as the quality of customers.

## Customer service score

(%)




### Definition

The customer service score is a branch level measure that enables progress to be assessed and identifies where improvements should be made. The score is based on those customers who make a clear statement in their survey response that they would recommend our service to a colleague or friend.

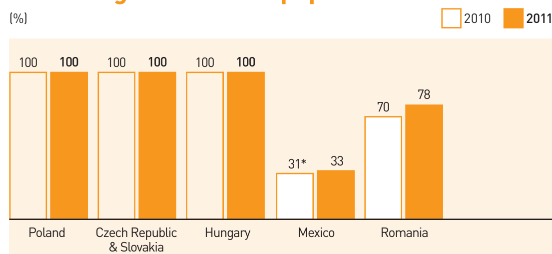
### Strategic link

- Excellent customer service drives improved and sustained revenue growth through existing customers and through them becoming customer advocates of our brand and our product.
- A key measure of our delivery of treating customers fairly.

Prior year numbers have been restated to reflect changes to sample selection criteria and weighting by number of customers by branch.

## Percentage of servable population reached

(%)




### Definition

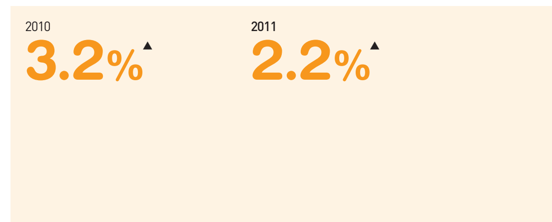
The proportion of the country population that we can serve through our branch network and agent force. Our growing branch and agent networks in Mexico and Romania have enabled a continued increase in the percentage of servable population.

### Strategic link

- The higher the proportion of the population that can be reached, the more customers who can be served.

*The percentage of servable population reached has been restated for 2010 to reflect changes in the method of calculation.

## Credit exceptions




### Definition

Credit exceptions are recorded in those cases where lending has exceeded one or more credit parameters defined in the Group credit rules. Exceptions improved to 2.2% in 2011.

### Strategic link

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

▲These KPIs have been externally assured by PwC in accordance with the International Standard on Assurance Engagements (ISAE 3000). Management's basis of reporting can be found at www.ipfin.co.uk/sustainability/reporting/basisofreporting. Also see the independent assurance report on page 71.

# Principal risks

**Effective risk management is critical to our business in order to deliver long-term shareholder value and protect our people, assets and reputation. Like any business, we face risk and uncertainties in all our business activities. Our challenge is to identify our principal risks and develop strategies and controls to mitigate these risks effectively.**

## 1. Growth

### Strategic risk

Our aim is to deliver value to shareholders through long-term, sustainable growth. There is a risk that we fail to deliver targeted levels of growth or that we grow too rapidly, creating unacceptably high levels of credit, operating or funding risk.

### Risk appetite statement

We will optimise sustainable growth in shareholder value without breaching our stated levels of credit, operating and funding risks.

### Mitigation

We comply with policies and controls in the following areas to ensure this risk is kept within appetite:

- credit risk;
- operating risk;
- funding risk; and
- credit exceptions.

## 2. Concentration risk

### Strategic risk

We have a competitive advantage in the provision of home credit and, accordingly, our strategy is to concentrate on expansion through this single product. This concentration increases exposure to adverse regulatory or competitive threats.

### Risk appetite statement

We accept the heightened risk of a single product strategy because of the superior returns this affords.

### Mitigation

We periodically review options to enhance the customer offering through the provision of other products and services which may appeal to our customers and are complementary to our home credit offer.

## 3. Reputation and regulation risk

### Strategic risk

We operate in emerging markets in which the legal and regulatory regimes can be subject to rapid and significant change. This presents a potential risk to the operation of the business, potentially resulting in reductions in profit, fines or the withdrawal of operating licences. Specific risks include:

- changes to the regulation of credit or the sale of credit by intermediaries or other laws that may impact the operation of the business and/or result in higher costs; and
- controls on the level or structure of charges for interest, agent service or other services that may impact the operation of the business or its level of profit.

In addition, our reputation may be adversely affected by ill-informed comment or malpractice which in turn may damage our brand and reduce customer demand.

### Risk appetite statement

We will always aim to comply with all relevant regulations but accept that the regulatory environment within which we operate is beyond our direct control and that changes in regulation may have a material impact on the business and its profitability. It is possible that regulation of consumer lending could lead to the removal of a licence to trade in one or more markets.

### Mitigation

We actively operate Treating Customers Fairly principles in all markets to protect our brand and reputation.

We operate a legal and regulatory governance regime which monitors compliance with all relevant regulations and escalates to the Board, for action, any areas of concern.

We foster open relationships with regulatory bodies and monitor closely developments in all our markets, and in respect of the EU as a whole. We have well established and experienced corporate affairs teams in all our markets.

We work proactively with opinion formers to ensure the business is well understood. This is facilitated by membership of the British Chamber of Commerce and/or relevant local trade bodies, and Eurofinas in Brussels.

We have an international legal committee to oversee legal risks across the Group.

We have an effective corporate responsibility programme in place.

We have clear operating guidelines and policies to ensure consistency and compliance with our values.

We pursue an active communications programme that aims to foster a good understanding of the Company.

## 4. Economic risk

### Strategic risk

The condition of the economies in which we operate and the implications of this for our customers will have an impact on our business performance.

Customers' ability to repay loans will be affected by events, such as unemployment or under-employment which impact household incomes. Reduced demand, reduced revenue and increased impairment may result.

### Risk appetite statement

We accept the risk that economic conditions in the markets in which we operate may change and this will impact our performance.

### Mitigation

We have a resilient business model because our loan book is short term; on average just five months' repayments are outstanding, which means we can quickly change the risk-return profile of our lending. In addition, our credit management and impairment systems, together with close customer relationships allow us to detect and respond rapidly to changes in customer circumstances and payment performance.

## 5. Competition risk

### Strategic risk

Increased competition may reduce our market share, leading to increased costs of customer acquisition and retention and reduced credit issued, lower revenue and lower profitability.

### Risk appetite statement

We accept the risk that increased competition may reduce our market share.

In new markets we conduct detailed research to identify those segments in a particular market we would look to serve, the current level of competition and the extent of our potential competitive advantage.

### Mitigation

Our distinctive operating model and high levels of personal service engender high levels of customer satisfaction and retention. Market research is regularly undertaken to monitor satisfaction levels, identify usage of other financial products and monitor competitor activity. We look to continuously improve the service we offer to customers.

## 6. Credit risk

### Strategic risk

Credit risk is intrinsic in consumer lending and represents the risk that customers fail to repay part or all of a loan as repayments fall due, leading to levels of impairment that are too high in relation to the charges made.

There is always a trade-off between sales growth and credit risk and there is a business risk that credit controls are inappropriately positioned leading to a sub-optimal level of profitability. In setting credit controls and establishing this trade-off, we believe that an impairment level of over 30% destroys customer lifetime value as a result of higher customer turnover and, in turn, leads to high staff and agent turnover as a result of the level of arrears work required. Conversely, we believe that an impairment level below 25% indicates that we are rejecting profitable lending opportunities that would increase lifetime value.

### Risk appetite statement

We will target annual Group impairment as a percentage of revenue of between 25% and 30%.

### Mitigation

We have effective credit management systems and rules in place for evaluating and controlling the risk from lending to new and existing customers which are managed at branch level. This is supplemented by the weekly contact between our agents and customers allowing a regular assessment of credit risk. Performance is monitored against benchmarks set for each product term and loan sequence.

Our agents are incentivised primarily to collect rather than lend, thereby ensuring they focus on responsible lending.

We have credit exception reporting in place to report and follow up on all loans issued outside the criteria defined within our application and behavioural scoring systems.

Group and country level credit committees review credit controls at country and branch level each month allowing rapid response to the changing market conditions.

# Principal risks continued

## 7. Funding and liquidity risk

### Strategic risk

We fund our activities and growth through a combination of equity capital, retained earnings and bank and bond debt funding. There is a risk that sufficient funding may not be available to support our business plan, and that there may be insufficient funding in the currencies in which we lend or that it is not available at an economic price.

This is particularly relevant following the significant reduction in the general availability of bank and capital markets funding.

A specific risk is that a breach of banking covenant may trigger a withdrawal of part or all of our debt facilities and, at extremes, this may lead to the going concern status of the business being called into question.

### Risk appetite statement

We will aim to maintain a capital structure (equity and debt) that provides, under a stressed scenario, sufficient committed funding facilities to cover forecast borrowings plus operational headroom for the next 18 months on a rolling basis, and ensures there is no reasonable likelihood of a covenant breach or rating downgrade.

### Mitigation

The business is well capitalised with equity to receivables of 58.5%. At 31 December 2011 there was headroom of £171.4 million on £447.9 million of bonds, and syndicated and bilateral banking facilities.

Our main banking facilities are committed until November 2013 and bond funding matures largely in 2015.

We have committed funding sufficient for our business plan until November 2013.

A Group Treasury Governance Structure is in place to ensure that adherence to Group policies is measured, monitored and managed on a monthly basis.

## 8. Operating risk – general

### Strategic risk

Our ambition is to achieve long-term growth and to expand our business into new markets. There is a risk that our business model would not be scalable if we failed to apply it consistently or if there was a systematic breakdown of the operating procedures, processes, systems or controls that underpin the model.

### Risk appetite statement

We accept that expanding our business creates additional risk of operating underperformance.

We will not accept any persistent or significant variations to our standard operating model for factors other than local legal requirements.

### Mitigation

We only implement significant business change initiatives following a proven and approved champion/challenger business case and pilot.

We ensure that new branch openings are made using staff with a minimum of six months' relevant experience.

We operate a risk-based internal audit programme.

We operate a Risk Management Framework to ensure key risks are identified, measured, monitored and mitigated.

## 9. Operating risk – accuracy and appropriate reporting

### Strategic risk

The integrity of our control and information systems requires that the financial position of the business is known accurately and in a timely fashion. There is a risk that we do not have systems, controls and processes which ensure this can be delivered.

### Risk appetite statement

We aim to design and operate performance reporting and financial control systems where there is no material risk from failures of internal systems and controls.

### Mitigation

We will only implement significant changes to controls or processes following a proven and approved business case and pilot.

We have an internal control framework and associated assurance mechanisms to ensure the ongoing systems, controls and processes are operating as required.

All changes to products, pricing and the accounting polices for receivables are matters reserved to the Board.

## 10. Operating risk – people

### (i) Safety

**Strategic risk**

We operate a model which involves a high degree of customer contact at the homes of our customers. In common with other groups of 'lone workers' there are risks of personal accident or assault associated with such home contact.

**Risk appetite statement**

We will take all reasonably practicable steps to mitigate risks to all employees and agents in the operation of their duties. We will not tolerate any material breaches of relevant Health and Safety legislation.

**Mitigation**

We seek to continually improve our processes to ensure high standards of safety. Our Health and Safety Governance Structure ensures that policies and procedures are in place to foster compliance with all relevant legislation and ensure that all reasonably practicable steps are taken to mitigate risks to all employees and agents in the operation of their duties.

### (ii) Availability

**Strategic risk**

We operate within a sector of the market in which there are few other players of a significant size, limiting the size of the recruitment market for key staff. In addition, we are seeking high levels of growth in existing and new markets. These factors combine to present the risk of a shortage of personnel of appropriate skills and knowledge to implement the Group strategy successfully.

**Risk appetite statement**

We will aim to have sufficient depth of personnel able to implement the strategy of the Group but will only grow the business at a rate consistent with the skills availability and experience of personnel.

**Mitigation**

We have a formal talent development programme aimed at delivering sufficient high-quality managers to meet future plans. A learning and development framework has also been implemented.

We aim to have approved succession plans for all senior management positions.

We aim to have a minimum of two named Country Managers and Operations Directors in waiting.

## 11. Operating risk – service disruption

**Strategic risk**

We operate a business which is highly dependent upon its IT systems and business processes in the delivery of an excellent service. There is a risk that the failure of these systems and processes may impact the overall customer experience resulting in lost business opportunities, specifically:

- day-to-day operations disrupted in the event of damage to, or interruption or failure of, information, credit appraisal and communication systems;
- failure to provide quality service to customers and loss of data; and
- disruption of activities increasing costs or reducing potential net revenues.

**Risk appetite statement**

We will not accept any material risk of the permanent destruction or loss of the books and records (including customer data) of the business.

We will aim to manage the losses arising from the risk of disruption to business activities to be no more than 10% of the expected pre-tax profit for any year.

**Mitigation**

Robust business continuity processes, procedures and a reporting framework are in place in all markets to enable us to continue trading and to recover full functionality as soon as practicable in the event of such an occurrence. These are regularly tested and reviewed. Strategies are revised where necessary.

We perform a Business Impact Assessment every two years in each of our markets.

There is continuous investment in the development of IT platforms.

# Principal risks continued

## 12. Business development risk – change management

**Strategic risk**

We aim to continuously improve our business performance. This involves change to systems, processes, reward systems and people. Through implementing change there is a risk that planned benefits are not realised or there are unintended consequences.

**Risk appetite statement**

We accept that continuous change and improvement carries risk and accept this risk but only to the extent that changes are tested and evaluated on a pilot basis before deployment.

**Mitigation**

We have a test and learn approach and all significant change is subject to user acceptance testing and pilot evaluation before deployment. We have a clear strategy for the development of revisions to IT systems and operating processes.

Standard project management methodology is applied across the Group.

## 13. New markets risk

**Strategic risk**

Our strategy includes entry into new markets that offer good, profitable growth potential. There is a risk that we choose the wrong market or enter it at the wrong time.

**Risk appetite statement**

We accept that new market entry carries the risk of failure that cannot be fully mitigated by research and careful preparation. We will limit the impact of failure on the income statement such that the annual operating costs of new market pilots, together with the estimated cost of the closure and write-down of all new market pilots, will be no more than 20% of annual pre-tax profit.

**Mitigation**

A report is made for Board approval in respect of all potential new countries based on our new market entry criteria.

We assess the potential to enter a new country in accordance with our seven entry tests.

Progression from a pilot to a roll-out phase will only be authorised by the Board following a period of a successful pilot and formal review.

## 14. Currency and matching risk

### (i) Currency risk

**Strategic risk**

We operate in markets which use different currencies from that in which we report our results, presenting a foreign exchange risk.

**Risk appetite statement**

All our earnings are denominated in foreign currency. We fully accept the risk that over the long term the translated value of these earnings may rise or fall and so change the reported value of the future prospects of the business and its market capitalisation.

The majority of net assets underpinning the nominal value of our equity are denominated in foreign currency. We fully accept the risk that the translated value of these may rise or fall leading to changes in the nominal value of our equity.

We will not accept any material portion of our receivables book to be debt funded in any currency other than the local currency without full hedging in place.

We will not enter into any speculative derivative contracts.

**Mitigation**

In the short term, we manage the risk that changes in exchange rates could have a material impact on market expectations by hedging at least two-thirds of forecast profits within each current financial year.

We have a Group Treasury Governance Structure in place to ensure that adherence to Group policies is measured, monitored and managed on a monthly basis.

No loans are issued in a currency other than the functional currency of the relevant market.

Funds are borrowed in, or swapped into, the same local currencies as net customer receivables so far as possible.

### (ii) Interest rate risk

**Strategic risk**

Typically, the service charge on our lending is fixed at the time a loan is granted and there is a risk that during the life of a loan the costs of providing and managing it increase and, therefore, impact profit margins.

**Risk appetite statement**

We fix interest costs so that the cost is matched with the revenue generated on the related receivables book.

**Mitigation**

We will hedge at least 75% of known interest costs on borrowings in each currency to be incurred in the next 12 months.

## 15. Tax risk

**Strategic risk**
We operate in emerging markets in which the taxation regimes can be subject to significant and rapid change. This presents the risk that the taxation charge in the Financial Statements does not reflect the ultimate tax cost incurred by the Group.

**Risk appetite statement**
We aim to comply with all relevant tax regulations. Nonetheless, we accept the risk that the position taken by the Group in relation to the taxation treatment of certain transactions may be subject to a challenge and that a decision against the Group may materially impact the taxation charge in the Financial Statements in any one year. However, we will aim to carry sufficient provisions to reflect the reasonable probability of any adverse outcomes and, additionally, to provide comfort that such adverse outcomes would not trigger a breach of bank covenants.

**Mitigation**
A Tax Committee is in place to monitor tax risks across the Group.

External professional advice for all material transactions is taken and supported by strong internal tax experts both in-country and in the UK.

Where possible, tax treatments are agreed in advance with relevant authorities.

We maintain a tax provision reflecting the expected risk-weighted impact of significant open or disputed tax items. Tax risks are reviewed every six months by the Audit and Risk Committee.

We do not recognise a deferred tax asset for start-up losses on a pilot operation unless and until the pilot moves to the roll-out phase.

A stress test analysis is performed to ensure that any potential tax risks, for which there is no provision, will not result in a covenant breach.

## 16. Counterparty failure – banks

**Strategic risk**
We have cash balances in the accounts of banks in all of our countries of operation, to ensure sufficient cash availability to fund the short-term operation of the business. This presents a counterparty risk in terms of the institutions used.

**Risk appetite statement**
We have policies aimed at avoiding exposure to any counterparty where the failure of that counterparty would impact pre-tax profit by 10% or more.

**Mitigation**
We have a Group Treasury Governance Structure in place to ensure that adherence to Group policies is measured, monitored and managed on a monthly basis.

Cash is held generally with single A or higher rated financial institutions. Institutions with lower credit ratings can only be used with full Board approval.

## 17. Counterparty failure – other

**Strategic risk**
We enter into arrangements with organisations over a medium term to provide services for certain core elements of the business, presenting a counterparty risk in terms of the failure of the organisation used.

There is the risk that business failure of a counterparty, such as an IT services provider, could cause significant disruption or impact on our ability to operate.

**Risk appetite statement**
We have procedures aimed at preventing us from entering into any long-term or material contract where the failure of the counterparty would impact pre-tax profit by 10% or more, unless there is no reasonable alternative.

**Mitigation**
We ensure there is Board approval of material medium-term contracts.

# Operational review

## All of our markets performed well in 2011, growing customers and credit issued whilst maintaining or improving credit quality.

### Group

*This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The report should not be relied on by any other party or for any other purpose. The report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. 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 2011 in order to present the underlying performance variance.*

### Profit before taxation

| Group | **2011 £m** | 2010 £m | Change £m | Change % | Change at CER % |
|---|---|---|---|---|---|
| Customer numbers (000s) | **2,406** | 2,211 | 195 | 8.8 | 8.8 |
| Credit issued | **844.5** | 764.5 | 80.0 | 10.5 | 11.5 |
| Average net receivables | **575.5** | 522.0 | 53.5 | 10.2 | 10.7 |
| | | | | | |
| Revenue (net of ESRs) | **649.5** | 608.7 | 40.8 | 6.7 | 7.4 |
| Impairment | **(167.7)** | (168.1) | 0.4 | 0.2 | (0.7) |
| | **481.8** | 440.6 | 41.2 | 9.4 | 9.9 |
| Finance costs | **(42.9)** | (33.9) | (9.0) | (26.5) | (28.1) |
| Agents' commission | **(72.9)** | (68.0) | (4.9) | (7.2) | (6.7) |
| Other costs | **(265.5)** | (246.6) | (18.9) | (7.7) | (8.8) |
| **Profit before taxation*** | **100.5** | 92.1 | 8.4 | 9.1 | |

*2010 stated before an exceptional charge of £3.9 million.

Profit before taxation was increased by 9% to a record £100.5 million, driven by good growth in customers and credit issued, improved credit quality and continued cost control. This allowed the business to make good progress despite the expected increase in funding costs following the 2010 refinancing and higher early settlement rebates ('ESRs') arising from the implementation of the EU Consumer Credit Directive ('CCD'), which together totalled £23.6 million.

At the start of 2011 our key objective was to accelerate growth against a backdrop of improving economic conditions in all our markets. Our plan was to drive growth by recruiting more agents, increasing investment in marketing and by the selective easing of credit controls.

We increased agent numbers by 13% and marketing expenditure by £2.1 million, and this helped to deliver a 9% increase in customer numbers and an 11% increase in average net receivables for the full year. As the global economic environment deteriorated in the second half of the year and consumer confidence in our European markets weakened, increased caution amongst European agents and customers led to a slowdown in growth for the Group, as shown in the table below:

| | Q1 | Q2 | Q3 | Q4 | **Full year** |
|---|---|---|---|---|---|
| Growth in credit issued | 8.6% | 19.7% | 12.9% | 5.6% | **11.5%** |

Achieving the right balance between growth and credit quality can be challenging and we were pleased that alongside stronger growth we were able to reduce the Group impairment charge as a percentage of revenue by 1.8 percentage points to 25.8%.

As expected, following last year's refinancing which delivered longer-term, diversified debt funding, finance costs increased sharply, up by 28% to £42.9 million.

Other costs increased in line with growth in the business, with around two thirds of the increase reflecting the additional investment in new branches and field management to increase our geographical penetration as well as additional marketing spend.

## Early settlement rebates

As previously disclosed, the CCD was adopted by the European Council in May 2008 and has subsequently been implemented in each of our European markets. Poland was the last country to do so, in December 2011. The primary impact of the legislation on our business has been to require that we grant more generous ESRs to customers who choose to settle their loans before the end of the contractual term. In 2011, net of a price adjustment, ESR costs were £13.3 million more than in 2010. In 2012, Poland enters these new arrangements and we estimate an additional year-on-year ESR cost in the range of £10 million to £15 million, although the final outcome is uncertain, depending on customer behaviour and also on the outcome of a long-standing case with the Polish Office of Competition and Consumer Protection on our pre-CCD early settlement practices.

## Segmental split of results

The table below shows the performance of each of our markets. We have shown the impacts of the higher ESR and funding costs and other non-recurring items to provide a better understanding of underlying performance:

| | **2011 reported profit £m** | Additional ESR costs £m | Additional finance costs £m | Other non-recurring items £m | Underlying profit increase £m | 2010 reported profit £m | Change on reported profit % |
|---|---|---|---|---|---|---|---|
| Poland | **66.0** | 3.6 | (3.9) | 4.1[1] | 13.2 | 49.0 | 34.7 |
| Czech-Slovakia | **37.8** | (6.3) | (2.3) | – | 4.7 | 41.7 | (9.4) |
| Hungary | **8.3** | (7.0) | (2.5) | – | 8.7 | 9.1 | (8.8) |
| Mexico | **1.5** | – | (0.9) | – | (1.1) | 3.5 | (57.1) |
| Romania | **4.1** | (3.6) | (0.7) | – | 6.7 | 1.7 | 141.2 |
| Central | **(17.2)** | – | – | (3.2)[2] | (1.1) | (12.9) | (33.3) |
| **Total** | **100.5** | (13.3) | (10.3) | 0.9 | 31.1 | 92.1[3] | 9.1 |

1. Repayment of VAT from prior periods.
2. Write-down of IT assets.
3. Stated before an exceptional charge of £3.9 million.

Poland was the key driver of increased Group profit in 2011, reporting growth of 35% to £66.0 million. Its performance reflects good growth, stable credit quality and tight cost control, which resulted in strong underlying profit growth. This result also included a one-off credit to the income statement of £4.1 million, as a result of a refund of VAT overpaid in previous periods and a £3.6 million benefit from a price rise implemented to offset higher ESR costs, the introduction of which was unexpectedly delayed by the Polish government until December 2011.

The Czech-Slovakia business delivered a solid performance, although customer growth at 4% was less than we had targeted. Reported profit reduced by £3.9 million to £37.8 million due to significant increases in interest and ESR costs amounting to £8.6 million.

Hungary delivered both good growth and maintained excellent credit quality. However, after additional interest and ESR costs totalling £9.5 million, the business reported a profit of £8.3 million, which was £0.8 million lower than 2010.

In Mexico our key task in 2011 was to carry through the underlying improvements in operating and collections effectiveness we started in 2010. In the first half of the year a number of changes were made, in particular we embedded a new field management structure designed to reduce spans of control in the field and improve the supervision and support of our development managers and agents. Mexico's first half profit reduced as a result of the additional costs from these changes. The benefits began to flow in the second half and we were able to combine accelerated growth with much improved credit quality with the result that second half profit was 29% above that for the same period of 2010. In addition, the changes made were instrumental in reducing impairment which, when stated as a percentage of revenue, improved by 6.3 percentage points to 30.2% for 2011 as a whole.

# Operational review continued

Our Romanian business, opened in 2006, continues to be on track with our original plan despite challenging local economic conditions. It reported an excellent result in 2011 with a £2.4 million increase in reported profit to £4.1 million, despite the impact of £4.3 million in higher ESR and interest costs. The main features of the result were continued strong customer growth together with improved credit quality.

Central costs increased by £4.3 million, including a one-off charge of £3.2 million to reduce the carrying value of our investment in handheld technology for agents and field staff. We successfully completed the trial of this technology in Hungary which proved the benefits of modernising the business in this way. Accordingly, we have decided to develop the technology in 2012 and to design revised working practices for subsequent roll-out across the business. Since the pilot commenced, more flexible and effective technology platforms have become available and we have therefore decided to write-down the carrying value of the technology deployed in the trial.

## Regulation and legislation

The CCD has now been implemented in all of our European markets. As expected, ESR costs have increased as a result of more favourable early settlement rules for customers.

Following a review of practices in respect of customer early settlement rebates by the Office of Competition and Consumer Protection in Poland, the practices of the Group's Polish business were challenged in 2009 and subsequently, in April 2011, our rebate practices were found to be unfair. We disagree with the verdict and our appeal is in progress and a date for an appeal hearing is awaited. In the meantime, the revised rebate methodology we introduced in December 2011 to conform to the Polish CCD legislation has addressed the concerns raised for loans issued after this date. If our appeal fails, more generous rebates will also be payable on loans outstanding at the date of the appeal decision, some of which may pre-date the implementation of the CCD.

As previously announced, on 9 November 2011 the Hungarian parliament approved legislation to lower the maximum APR cap for loans. Although originally scheduled to become effective for loans issued on or after 1 January 2012, an amendment was approved in late December 2011, postponing the effective date to 1 April 2012. We have completed amendments to our product pricing and structure to meet the requirements of the new, lower APR cap. Whilst we cannot be certain as to the impact this may have on the future performance of our business, based on similar changes we have made in the past in other countries we do not expect a material impact on the prospects of our Hungarian business.

## Strategy

New country entry remains a key element of our long-term strategy. Our detailed research of potential new markets is ongoing but given the current uncertain economic climate we do not intend at this time to commit to launch a new market pilot.

## Outlook

The outlook for the global economy remains uncertain and we have prepared for this by maintaining tight control over costs. We also have the ability to tighten credit rules rapidly in the event that conditions deteriorate.

Notwithstanding the general economic uncertainty, the first two months of 2012 have been encouraging for IPF, with good sales growth and stable credit quality. Future growth prospects are good and we have a strong balance sheet. We are confident the business will continue to perform well.

## Poland

Poland is our largest market and has performed very strongly, reporting an increase in profit of 35% to £66.0 million. The key drivers of this performance were a steady increase in customer numbers (up by 7% to 834,000), stronger growth in credit issued (up 10%) together with stable credit quality and good control of costs. This result also includes a one-off credit to the income statement of £4.1 million, as a result of refunds of VAT overpaid in previous periods and a benefit of £3.6 million from a price rise implemented in 2009 to offset the impact of higher ESR costs.

| | 2011 £m | 2010 £m | Change £m | Change % | Change at CER % |
|---|---|---|---|---|---|
| Customer numbers (000s) | **834** | 782 | 52 | 6.6 | 6.6 |
| Credit issued | **318.6** | 296.4 | 22.2 | 7.5 | 10.4 |
| Average net receivables | **236.8** | 221.0 | 15.8 | 7.1 | 9.3 |
| | | | | | |
| Revenue | **273.2** | 245.3 | 27.9 | 11.4 | 13.9 |
| Impairment | **(83.2)** | (75.1) | (8.1) | (10.8) | (13.5) |
| | **190.0** | 170.2 | 19.8 | 11.6 | 14.1 |
| Finance costs | **(14.8)** | (12.5) | (2.3) | (18.4) | (21.3) |
| Agents' commission | **(27.3)** | (24.9) | (2.4) | (9.6) | (11.9) |
| Other costs | **(81.9)** | (83.8) | 1.9 | 2.3 | (1.1) |
| **Profit before taxation** | **66.0** | 49.0 | 17.0 | 34.7 | |

We continue to believe that there are significant opportunities for further growth in the Polish market and we increased our agent numbers by 13% in order to provide a platform to achieve this.

Credit issued was increased by 10% which was faster than customer growth and reflects higher sales to existing quality customers. This growth resulted in an increase in average net receivables of 9% at constant exchange rates. Revenue grew at a slightly faster rate due to the positive, year-on-year, impact of the 2009 price increase and a shift in mix of the receivables book away from lower yielding longer-term products.

Credit quality remained stable, with impairment as a percentage of revenue at 30.5%, which was marginally lower than 2010.

Finance costs were £2.3 million higher than 2010 due to a combination of the higher funding costs arising from the 2010 refinancing partly offset by a lower borrowing requirement reflecting strong cash generation. Agents' commission costs, which are variable in nature, increased in line with growth in the business and represented 10% of revenue.

Other costs were tightly controlled and, excluding the £4.1 million VAT refund noted above, increased by 6% which is significantly lower than revenue growth.

## Czech Republic and Slovakia

Our business in Czech-Slovakia delivered a solid performance in 2011 although the reported profit reduced by £3.9 million due to the £8.6 million combined impact of higher finance and ESR costs.

| | 2011 £m | 2010 £m | Change £m | Change % | Change at CER % |
|---|---|---|---|---|---|
| Customer numbers (000s) | **400** | 386 | 14 | 3.6 | 3.6 |
| Credit issued | **209.5** | 185.4 | 24.1 | 13.0 | 10.2 |
| Average net receivables | **148.3** | 131.9 | 16.4 | 12.4 | 9.2 |
| | | | | | |
| Revenue | **144.8** | 137.7 | 7.1 | 5.2 | 2.1 |
| Impairment | **(30.2)** | (27.3) | (2.9) | (10.6) | (6.7) |
| | **114.6** | 110.4 | 4.2 | 3.8 | 1.0 |
| Finance costs | **(6.2)** | (5.7) | (0.5) | (8.8) | (6.9) |
| Agents' commission | **(15.2)** | (14.7) | (0.5) | (3.4) | (0.7) |
| Other costs | **(55.4)** | (48.3) | (7.1) | (14.7) | (9.9) |
| **Profit before taxation** | **37.8** | 41.7 | (3.9) | (9.4) | |

Agent numbers grew by 7% and customer numbers increased by 4%, which was a little slower than planned. We continue to believe there is the potential for stronger customer growth in this market and in 2012 we plan to intensify our efforts to realise this.

Credit issued increased by 10%, a stronger rate than customer growth, reflecting increased sales to existing quality customers and this resulted in average net receivables growth of 9%. Revenue grew at a slower rate due to higher ESR costs following the implementation of the CCD in Slovakia and the Czech Republic in July 2010 and January 2011 respectively.

Collections performance remained robust and impairment as a percentage of revenue, at 20.9%, was broadly in line with 2010. Finance costs increased by 7% due to the full year impact of higher funding costs partially offset by lower levels of borrowing. Agents' commission costs increased in line with growth in the business. Other costs grew by 10% driven primarily by increased marketing and related expenditure to stimulate growth.

# Operational review continued

## Hungary

Hungary performed well delivering good growth in customer numbers, strong growth in credit issued and excellent credit quality. Reported profit was £0.8 million lower than 2010 due to £9.5 million of higher ESR and interest costs.

| | 2011 £m | 2010 £m | Change £m | Change % | Change at CER % |
|---|---|---|---|---|---|
| Customer numbers (000s) | **252** | 238 | 14 | 5.9 | 5.9 |
| Credit issued | **104.3** | 95.1 | 9.2 | 9.7 | 11.0 |
| Average net receivables | **71.6** | 62.5 | 9.1 | 14.6 | 15.1 |
| | | | | | |
| Revenue | **74.2** | 74.0 | 0.2 | 0.3 | 0.7 |
| Impairment | **(9.0)** | (11.3) | 2.3 | 20.4 | 19.6 |
| | **65.2** | 62.7 | 2.5 | 4.0 | 4.3 |
| Finance costs | **(8.6)** | (6.0) | (2.6) | (43.3) | (45.8) |
| Agents' commission | **(13.3)** | (12.7) | (0.6) | (4.7) | (5.6) |
| Other costs | **(35.0)** | (34.9) | (0.1) | (0.3) | (0.6) |
| **Profit before taxation** | **8.3** | 9.1 | (0.8) | (8.8) | |

A focus on improving customer service, more effective internal communications, improved marketing and agency growth of 4% allowed the business to make good progress in growing its customer base towards the previous level of over 300,000. Customer growth, together with improved credit quality which increased the number of customers eligible for larger loans, resulted in stronger credit issued growth of 11%. Average net receivables grew at an even faster rate of 15% due to the progressive acceleration in credit issued growth since mid-2010.

Revenue grew by less than 1% reflecting higher ESR costs, which are netted-off revenue. The impact in Hungary is relatively high compared to other markets due to the higher incidence of early settlement. This reflects the very high quality of our customer portfolio and we would expect the incidence to reduce as the business grows and credit quality normalises.

Credit quality remains excellent and impairment as a percentage of revenue is 12.1% (2010: 15.3%), which is well below our target range of 25% to 30%. We would have eased our credit settings further in the second half of the year but chose to maintain a more cautious positioning given the macro economic issues facing the country.

Financing costs were £2.6 million higher than 2010 due to the increased cost of debt funding and higher borrowings. Agents' commission costs increased in line with the growth in the business. Other costs and the cost-income ratio were in line with 2010 reflecting very tight cost control.

The economic situation in Hungary is uncertain and is likely to remain so until there is a conclusion to the funding discussions between the Hungarian government, the EU and the IMF. Nonetheless, our Hungarian business has made good progress and we believe there are further opportunities to grow.

## Mexico

During the second half of 2010 we reduced growth and suspended geographic expansion whilst we made improvements to our field operations so as to improve the consistency and regularity of agent collections and thereby credit quality. Our key task in 2011 in Mexico was to carry through these underlying improvements. In the first half of the year a number of changes were completed, in particular we embedded a new field management structure designed to reduce spans of control in the field and improve the supervision of our development managers and agents. This investment, together with the opening of seven new branches, increased our cost base and consequently, in the first half, profit reduced.

In the second half the expected benefits started to flow and we were able to combine accelerated growth with much improved credit quality. Consequently, whilst profit for the year reduced by £2.0 million to £1.5 million, second half profit was 29% above that for the same period of 2010. In addition, the changes made have been instrumental in substantially reducing impairment as a percentage of revenue for 2011 by 6.3 percentage points to 30.2% and it is now at our target level for this market.

| | 2011 £m | 2010 £m | Change £m | Change % | Change at CER % |
|---|---|---|---|---|---|
| Customer numbers (000s) | **671** | 598 | 73 | 12.2 | 12.2 |
| Credit issued | **124.4** | 113.0 | 11.4 | 10.1 | 12.8 |
| Average net receivables | **67.7** | 65.1 | 2.6 | 4.0 | 6.1 |
| | | | | | |
| Revenue | **102.9** | 101.2 | 1.7 | 1.7 | 4.1 |
| Impairment | **(31.1)** | (36.9) | 5.8 | 15.7 | 14.3 |
| | **71.8** | 64.3 | 7.5 | 11.7 | 14.9 |
| Finance costs | **(7.7)** | (5.9) | (1.8) | (30.5) | (40.0) |
| Agents' commission | **(11.6)** | (10.8) | (0.8) | (7.4) | (2.7) |
| Other costs | **(51.0)** | (44.1) | (6.9) | (15.6) | (21.7) |
| **Profit before taxation** | **1.5** | 3.5 | (2.0) | (57.1) | |

As a result of improved operating performance, growth was accelerated from May 2011 and we increased the emphasis of our internal communications and incentive schemes towards expanding our business. This was successful and so for the year agent numbers increased by 17%, customer numbers grew by 12% to 671,000 and credit issued increased by 13%. Growth in average net receivables and revenue was less and lagged the growth in credit issued.

Finance costs increased by 40% to £7.7 million due to the higher cost of debt following the 2010 refinancing together with a larger borrowing requirement arising from the growth of the business. Agents' commission costs increased broadly in line with growth in the business.

Other costs increased by 22% to £51.0 million reflecting the investment made in implementing our new field management structure, expanding the branch network and supporting growth in our existing branches.

During 2012, we will continue to focus our efforts on improving operational performance. We will also move on to the important next step of our development plan which is to build on improved credit quality by increasing loan size and thereby increasing revenue per customer. Some of this will come naturally, with customers paying more regularly and so getting the offer of increased loan sizes. We will also test the opportunity to further leverage improved credit quality by relaxing credit controls for good paying customers. This offers the possibility to further increase customer profitability. We will explore this possibility carefully by conducting structured credit tests in the first half of 2012.

The profit before taxation is analysed by region as follows:

| | **2011 £m** | 2010 £m | Change £m | Change % |
|---|---|---|---|---|
| Puebla | **4.7** | 5.2 | (0.5) | (9.6) |
| Guadalajara | **7.5** | 6.7 | 0.8 | 11.9 |
| Monterrey | **(1.7)** | (0.8) | (0.9) | (112.5) |
| Head office | **(9.0)** | (7.6) | (1.4) | (18.4) |
| **Profit before taxation** | **1.5** | 3.5 | (2.0) | (57.1) |

We remain convinced of the long-term potential of the Mexican business to grow to at least three million customers generating a total pre-tax profit of £90 million per annum in the long term, which will provide helpful diversification of our business outside of the European Union.

## Romania

Our business in Romania reported excellent results in 2011. Profit increased by £2.4 million to £4.1 million despite £4.3 million of higher ESR and finance costs.

| | **2011 £m** | 2010 £m | Change £m | Change % | Change at CER % |
|---|---|---|---|---|---|
| Customer numbers (000s) | **249** | 207 | 42 | 20.3 | 20.3 |
| Credit issued | **87.7** | 74.6 | 13.1 | 17.6 | 17.2 |
| Average net receivables | **51.1** | 41.5 | 9.6 | 23.1 | 22.8 |
| | | | | | |
| Revenue | **54.4** | 50.5 | 3.9 | 7.7 | 7.3 |
| Impairment | **(14.2)** | (17.5) | 3.3 | 18.9 | 18.9 |
| | **40.2** | 33.0 | 7.2 | 21.8 | 21.1 |
| Finance costs | **(5.6)** | (4.9) | (0.7) | (14.3) | (7.7) |
| Agents' commission | **(5.5)** | (4.9) | (0.6) | (12.2) | (12.2) |
| Other costs | **(25.0)** | (21.5) | (3.5) | (16.3) | (13.6) |
| **Profit before taxation** | **4.1** | 1.7 | 2.4 | 141.2 | |

The key ingredients of growth were a 23% increase in agent numbers which facilitated customer growth of 20% to almost 250,000 customers. Credit issued grew 17% and average net receivables increased by 23% to £51.1 million. Revenue grew at a slower rate of 7% due to the impact of increased ESR costs.

Improvements in operational effectiveness alongside the natural maturing of the business drove a substantial improvement in collections performance and credit quality, and as a result, impairment as a percentage of revenue was reduced substantially, by 8.6 percentage points, to 26.1%.

Finance costs increased by £0.7 million due to higher funding costs following the 2010 refinancing. Agents' commission costs increased in line with the growth in the business. Other costs increased by 14% to support the expansion of the business.

Further geographic expansion is planned.

**John Harnett**
Chief Executive Officer

# Financial review

**David Broadbent, Finance Director**

**2011 was another successful year for the Group which has grown profit by 9.1% to a record £100.5 million despite the impact of higher early settlement rebates and an increase in funding margins. Adjusted earnings per share increased by 9.2% to 28.55 pence and this has given the Board confidence to recommend a 13.2% increase in dividend to 7.1 pence per share, which is in line with the Group's policy of a 25% payout ratio.**

| | **2011** | 2010 |
|---|---|---|
| Revenue (£m) | **649.5** | 608.7 |
| Profit before tax (£m)[1] | **100.5** | 92.1 |
| Adjusted earnings per share (pence)[2] | **28.55** | 26.14 |
| Dividends (pence) | **7.10** | 6.27 |
| Cash generated by operations (£m) | **82.7** | 97.3 |
| Equity as a percentage of receivables | **58.5%** | 54.5% |
| Return on capital employed[2] | **22.7%** | 22.2% |

1. Before exceptional items of £3.9 million in 2010.
2. Presented at a constant 28% tax rate and before exceptional items in 2010 in order to better present the performance of the Group. As explained overleaf, the effective tax rate in 2010 and 2011 was impacted by one-off adjustments to deferred tax arising from change in legislation in Hungary and the underlying rate was approximately 28% in both years.

The Group continues to be highly cash generative with cash generated from operations of £82.7 million while at the same time we grew our receivables book by £61.6 million. The Group has a strong balance sheet and continues to be well funded. Equity as a percentage of receivables increased by 4 percentage points to 58.5% and, despite this increased proportion of equity funding, the Group's return on capital employed ('ROCE') increased by 0.5 percentage points to 22.7%. We have completed a review of the Group's capital structure and concluded that an equity to receivables ratio of around 55% is appropriate given the uncertain economic outlook and the current funding structure. There is no current intention to return surplus capital to shareholders because of the uncertain outlook for the global economy and wholesale funding markets.

## 2011 results

### Trading performance

We have grown revenue by 7.4% to £649.5 million which is lower than growth in credit issued due to the impact of higher early settlement rebates ('ESRs'). Our profit

margin improved by 0.4 percentage points to 15.5% driven by an improvement in the ratio of impairment to revenue partially offset by the expected increase in funding costs of £10.3 million following the 2010 refinancing and higher ESRs of £13.3 million. As a result we reported profit before taxation of £100.5 million, an increase of 9.1% from the pre-exceptional profit of £92.1 million in 2010. The growth in statutory profit before taxation was slightly faster at 13.9% because 2010 included an exceptional charge of £3.9 million.

Our business model generates good margins and returns. The 2011 Group result reflects a combination of our established Central European markets of Poland, the Czech Republic, Slovakia and Hungary, and our developing markets of Mexico and Romania. Our Central European markets have further opportunities for growth but have a relatively mature margin structure and profile of returns. In 2011 these markets generated a pre-tax profit margin of 22.8% and return on equity of 32.0%. As Mexico and Romania develop, we would expect them to have a similar margin structure and generate similar returns. The profit margin for the Group as a whole in 2011 was 15.5% and its return on equity was 22.7%.

| | EPS[1] (p) | Margin (%) | ROCE[2] (%) |
|---|---|---|---|
| Poland | 18.72 | 24.2 | 36.6 |
| Czech-Slovakia | 10.73 | 26.1 | 32.5 |
| Hungary | 2.37 | 11.2 | 15.4 |
| Central Europe | 31.82 | 22.8 | 32.0 |
| Central costs | (4.89) | – | – |
| Developing markets | 1.62 | 3.6 | 6.2 |
| **Group** | **28.55** | **15.5** | **22.7** |

1. Adjusted to constant tax rate of 28%.
2. For this purpose equity has been calculated as 58.5% of receivables and tax has been allocated across the businesses at a constant 28%.

## Taxation

The taxation charge for the year was £24.0 million (2010: £29.0 million). This represents a nine percentage point reduction in the effective tax rate to 24% and has arisen due to the impact that changes in the Hungarian corporate tax rate had on the Group's deferred tax asset. In 2010, the Hungarian government legislated to reduce the rate of corporation tax in Hungary from 19% to 10% effective from 2013, resulting in a one-off tax charge in 2010 of £4.4 million. This legislation was repealed in 2011 and there is a corresponding one-off reduction in this year's tax charge of £4.2 million due to an increase in the value of the Group's deferred tax asset. The effective tax rate for 2010 and 2011, ignoring the effect of the Hungarian deferred tax asset revaluations, was approximately 28%, and is expected to remain broadly at this level in 2012.

## Dividend

Subject to shareholder approval, a final dividend of 4.1 pence per share will be payable which will bring the full year dividend to 7.1 pence per share, an increase of 13.2% (2010: 6.27 pence per share). This is consistent with our progressive dividend policy. The dividend will be paid on 1 June 2012 to shareholders on the register at the close of business on 20 April 2012. The shares will be marked ex-dividend on 18 April 2012.

## Foreign exchange

Changes in foreign exchange rates had no significant impact on the 2011 profit compared with the previous year due to the profit hedging put in place in January 2011. There was however significant volatility in foreign exchange rates during 2011, particularly in the second half of the year, when our operating currencies weakened significantly against sterling. Our policy is to hedge the translation of reported profit only within the reporting year. In accordance with this policy, in January 2012 we hedged the rates that will be used to translate 70% of 2012 forecast profit at an effective average rate that is approximately 17% adverse to the rates experienced in 2011.

The majority of the Group's net assets are denominated in our operating currencies and therefore their sterling value fluctuates with changes in foreign exchange rates. In accordance with accounting standards, we have restated the opening foreign currency net assets at the year end exchange rate and this has resulted in a £40.2 million foreign exchange movement which has been charged to the foreign exchange reserve.

## Cash flows

Our business model is cash and capital generative.

| | **2011 £m** | 2010 £m |
|---|---|---|
| Cash generated from operations before receivables growth | **144.3** | 133.9 |
| Receivables growth | **(61.6)** | (36.6) |
| **Cash generated from operations** | **82.7** | 97.3 |
| Established markets | **78.1** | 93.8 |
| Developing markets | **4.6** | 3.5 |
| **Cash generated from operations** | **82.7** | 97.3 |

# Financial review continued

The cash generated from operations before receivables growth of £144.3 million was sufficient to fund growth in receivables of £61.6 million, interest of £42.9 million, tax of £27.9 million, capital expenditure of £11.6 million and dividends of £17.1 million with only a small increase in borrowings.

## Balance sheet and capital structure

A summary of the balance sheet is set out below:

| | 2011 £m | 2010 £m |
|---|---|---|
| Receivables | **560.4** | 566.9 |
| Borrowings | **(276.5)** | (304.3) |
| Other net assets | **43.8** | 46.4 |
| Net assets | **327.7** | 309.0 |
| Equity to receivables | **58.5%** | 54.5% |

The Group has a well-funded balance sheet and strong cover ratios:

- we are well capitalised with shareholders' equity representing 58.5% of receivables, the equivalent of a bank's Tier 1 ratio;
- gearing* has reduced from 1.0 times to 0.9 times;
- we have a diversified debt funding structure, with a mix of bond and bank facilities and a balanced maturity profile; and
- we have good cover against all of our core funding covenants.

| | | 2011 | 2010 |
|---|---|---|---|
| Gearing* | Max 3.75 | **0.9** | 1.0 |
| Interest cover | Min 2 times | **3.4** | 3.8 |
| Net worth* | Min £125 million | **320.2** | 316.8 |
| Receivables: borrowings | Min 1.1:1 | **2.0** | 1.9 |

*Adjusted for derivatives and pension liabilities according to covenant definitions.

## Receivables and provisioning

At the end of 2011 receivables were £560.4 million, which is £61.6 million (10.3%) higher than 2010 in constant currency terms and reflects the growth in the business. The average period of receivables outstanding was 4.9 months (2010: 5.0 months) with 99.1% of year end receivables due within one year (2010: 98.6%).

Our receivables book is valued by discounting the expected future cash flows in respect of outstanding customer loans by the relevant effective interest rate. The expected future cash flows are adjusted to take account of our expectation of future credit losses based on the number of weeks since the loan was issued, the number of missed payments and the historical performance of similar loans.

We operate a prudent, objective and centrally controlled impairment provisioning system that has the following key attributes:

- impairment provisions are assessed on a weekly basis;
- an impairment charge is made in the event of any missed payment or portion of payment, even if the agent fails to visit a customer;
- impairment charges are always calculated by reference to the customer's original contractual repayment schedule, even when an extended repayment schedule has been agreed under our forbearance procedures;
- customers are categorised into arrears stages by reference to their most recent 12-week repayment performance;
- provision percentages for each arrears stage have been derived using statistical modelling of past customer performance that estimates the amount and timing of cash flows; and
- separate statistical models are used for each product in each country and these models are reviewed on a regular basis to ensure that they reflect current performance.

## Debt funding

Group borrowings at the end of 2011 were £276.5 million, which is £4.3 million higher than 2010 at constant exchange rates. This compares with total facilities of £447.9 million, giving headroom on facilities of £171.4 million. The maturity profile of facilities is summarised as follows:

| | Less than one year £m | One to three years £m | Four to five years £m | Total £m |
|---|---|---|---|---|
| Short-term bank facilities | 17.2 | – | – | **17.2** |
| Syndicated and bilateral term bank facilities | – | 198.8 | – | **198.8** |
| Bonds | – | 7.0 | 224.9 | **231.9** |
| | 17.2 | 205.8 | 224.9 | **447.9** |
| Borrowings | | | | **276.5** |
| Headroom | | | | **171.4** |

The Group has a balanced debt funding profile which comprises short-term bank facilities, term bank facilities and bonds. The bonds comprise funding in euro, Polish zloty and Romanian lei and mature principally in 2015. The syndicated and bilateral term facilities mature largely in 2013, although £19.8 million mature in 2014. In January 2012 we extended £24.3 million of the bank facilities to 2015. Our syndicated and bilateral facilities reflect a broad banking group that has a good strategic and geographical fit with our operations. These facilities are provided by the following institutions: Citibank, HSBC, VUB, BZWBK, Unicredit, ING, Alior, DZ Bank, OTP Bank, PBP Bank and RZB/Tatra.

## Capital structure

The Board has reviewed the Group's capital structure with a view to maintaining an appropriate balance between capital efficiency and ensuring that there is sufficient capital to continue to expand the business and to withstand a severe recession. This review concluded that given the current, highly uncertain global economic conditions and based on its current funding and covenant structure, a ratio of equity to receivables of approximately 55% is appropriate for the Group. There is no current intention to return surplus capital to shareholders because of the uncertain outlook for the global economy and wholesale funding markets.

## Treasury policies in volatile financial markets

There continues to be significant volatility in global financial markets, particularly relating to the eurozone sovereign debt crisis and its impact on the banking sector. Whilst policy makers discuss and propose various solutions, we think it is prudent to plan on the basis that this volatility continues. Our Board-approved Treasury policies which address the principal risks that our business faces, aim to ensure that we are well funded and well hedged, even in difficult external financial market conditions.

From a funding perspective, we aim to maintain a capital structure that provides, under a stressed scenario, sufficient committed funding facilities to cover forecast borrowings plus operational headroom for the next 18 months on a rolling basis. Our policies require us to maintain a relatively high level of hedging for the key currency and interest rate risks. Funds are borrowed in the same currencies as our receivables, as far as possible (directly or indirectly). We have hedged 70% of our forecast currency profits in 2012, to give greater certainty on the sterling value of these profits. We have fixed 75% of our currency interest costs for 2012, and 25% for 2013.

In respect of bank counterparty credit risk, we do not hold significant amounts of surplus cash. Our exposure to credit risk on cash or via currency and derivative transactions is limited to single A-rated counterparties as a policy minimum, except as expressly approved by the Board.

We believe that the combination of our successful business model, which was stress-tested during the recession of 2009, and our prudent funding and hedging position, mean that we are well placed to withstand external shocks in financial markets.

## Going concern

The Board has reviewed the budget for the year to 31 December 2012 and the forecasts for the four years to 31 December 2016 which include projected profits, cash flows, borrowings and headroom against facilities. The Group's committed funding through a combination of bonds and committed bank facilities are sufficient to fund the planned growth of our existing operations and new markets until November 2013. Taking these factors into account 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 these Financial Statements.

**David Broadbent**
Finance Director

# Our Board and Committees

## (as at 29 February 2012)

### Christopher Rodrigues CBE
Chairman, age 62

Christopher joined the Board of International Personal Finance plc in 2007 at the time of the demerger from Provident Financial plc, serving as Executive Chairman until October 2008 when the chairmanship became a non-executive role.

Qualifications: Graduated in Economics and Economic History and has an MBA.

Other appointments: Chairman of VisitBritain, a non-executive director of Ladbrokes plc and Chairman of the Almeida Theatre Islington.

Previous appointments: Chief Executive of Thomas Cook, Chief Executive of Bradford and Bingley, board member of the Financial Services Authority, President and Chief Executive of Visa International and Joint Deputy Chairman of Provident Financial plc.

### John Harnett
Chief Executive Officer, age 57

John joined the Board of International Personal Finance plc in 2007 and served as Chief Operating Officer until October 2008 when he was appointed Chief Executive Officer.

Qualifications: Graduated in Business Studies and is a chartered accountant.

Previous appointments: Finance Director of Holliday Chemical Holdings plc, Finance Director of Allied Colloids PLC and Finance Director of Provident Financial plc, later Managing Director of its International Division.

John will leave the Board on 31 March 2012.

### Gerard Ryan
Chief Executive Officer (Designate), age 47

Gerard joined the Board of International Personal Finance plc in January 2012 as Chief Executive Officer (Designate).

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

Previous appointments: qualified at Touche Ross, auditor at KPMG; Chief Financial Officer of Garanti Bank, Turkey and Chief Executive Officer of GE Money Bank, Prague; Chief Executive Officer for Citi's consumer finance businesses in the Western Europe, Middle East and Africa region; director of Citi International plc, Egg plc and Morgan Stanley Smith Barney UK.

Gerard will become Chief Executive Officer at the beginning of April 2012.

### David Broadbent
Finance Director, age 43

David joined the Board of International Personal Finance plc as Finance Director in 2007.

Qualifications: Graduated in Classics, has an MBA and is a chartered accountant.

Previous appointments: Senior Manager with PricewaterhouseCoopers, Financial Controller and later Finance Director of the International Division of Provident Financial plc.

### Tony Hales CBE
Senior independent non-executive director, age 63

Tony joined the Board of International Personal Finance plc as a non-executive director in 2007.

Qualifications: Graduated in Chemistry.

Other appointments: Chairman of British Waterways, a non-executive director of Capital & Regional plc and a board member of The Services Sound and Vision Corporation. He is also a director of Welsh National Opera Limited.

Previous appointments: Chief Executive of Allied Domecq plc, Chairman of Workspace Group plc and NAAFI, and a non-executive director of Provident Financial plc, Welsh Water plc, Aston Villa plc, HSBC Bank plc and Reliance Security Group plc.

### Charles Gregson
Non-executive director, age 64

Charles joined the Board of International Personal Finance plc as a non-executive director in 2007.

Qualifications: Graduated in History and Law and qualified as a solicitor.

Other appointments: Non-executive Chairman of CPPGroup Plc, ICAP plc, and St. James's Place plc. He is also a non-executive director of Caledonia Investments plc.

Previous appointments: Chief Executive of PR Newswire Association Inc, director of United Business Media plc, a non-executive director and Deputy (later Joint Deputy) Chairman of Provident Financial plc.

Charles will leave the Board on 9 May 2012.

### Edyta Kurek
Independent non-executive director, age 45

Edyta joined the Board of International Personal Finance plc as a non-executive director in February 2010.

Qualifications: Graduated in Nuclear Engineering.

Other appointments: Vice President East Central Europe and Middle East, and General Manager of Herbalife Polska Sp. z o.o.

Previous appointments: positions in Oriflame Poland Sp. z o.o. and UPC Poland Sp. z o.o.

### John Lorimer
Independent non-executive director, age 59

John joined the Board of International Personal Finance plc as a non-executive director in May 2010.

Qualifications: Graduated in Commerce.

Other appointments: Chairman of CAF Bank Ltd and a trustee of the Charities Aid Foundation; a director of Aberdeen New Dawn Investment Trust PLC and The British United Provident Association Limited. He is also a director of Welsh National Opera Limited.

Previous appointments: senior positions with Standard Chartered Bank (including Group Head of Compliance and Regulatory Risk) and Citigroup.

### Nicholas Page
Independent non-executive director, age 59

Nicholas joined the Board of International Personal Finance plc as a non-executive director in 2007.

Qualifications: Graduated in Philosophy, Politics and Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other appointments: Non-executive director of Collins Stewart Hawkpoint plc. He is a senior advisor to Star Capital Partners and Chairman of C.A.R.E. Europe sarl.

Previous appointments: Chief Operating Officer of Travelex plc, Managing Director of Hambro Insurance Services plc, executive director of Hambros Bank and Joint Deputy Chairman of Hambro Group Investments, and a non-executive director of MoneyGram International Limited.

**Executive Committee**
John Harnett (Chairman)
David Broadbent
Fred Forfar
Gerard Ryan

**Disclosure Committee**
John Harnett (Chairman)
David Broadbent
Rosamond Marshall Smith

**Nomination Committee**
Christopher Rodrigues (Chairman)
Tony Hales
John Harnett
Edyta Kurek
John Lorimer
Nicholas Page

**Remuneration Committee**
Tony Hales (Chairman)
John Lorimer
Nicholas Page

**Audit and Risk Committee**
Nicholas Page (Chairman)
Tony Hales
John Lorimer

# Our Senior Management Group

**David Parkinson**
Country Manager – Poland

David joined the business in 2003 as Field Development Manager and was appointed Country Manager of the Czech Republic and Slovakia in January 2008 and Country Manager of Poland in February 2010. He previously held various operational roles within the UK home credit division of Provident Financial plc before serving as Head of Communications, Head of Training and Head of Agent Support.

**Chris Wheeler**
Country Manager – Czech Republic and Slovakia

Chris joined the business in June 2001, working in operations in the Czech Republic, Slovakia and Poland. In 2005 he moved to Mexico to lead the expansion into the Guadalajara region and in January 2008 was appointed Country Manager of Russia. He was appointed Country Manager of the Czech Republic and Slovakia in February 2010. He previously held various management positions within the UK home credit division of Provident Financial plc.

**Botond Szirmak**
Country Manager – Hungary

Botond joined the Group in Hungary in February 2002 as a Development Manager, moving to Area Manager, Regional Operations Manager and Divisional Operations Manager. He was appointed Operations Director in 2006 and in February 2008 he became Country Manager of Hungary.

**Kenny McPartland**
Country Manager – Mexico

Kenny joined the business in 1998 as Field Development Manager in the Czech Republic. He was appointed Country Manager of Slovakia in 2001 and moved to be Country Manager of the Czech Republic in 2003. He took charge of both countries in January 2006. In January 2008 he was appointed Country Manager of Mexico. He previously held various operational roles within the UK home credit division of Provident Financial plc.

**Russell Johnsen**
Country Manager – Romania

Russell joined the business in 1997 and played a key role in establishing the businesses in Poland and the Czech Republic. In 2007 he joined Provident Mexico as Business Development Director. He was appointed Country Manager of Romania in February 2009. He previously held various field-based management roles within the UK home credit division of Provident Financial plc.

**Fred Forfar**
Group Development Director

Fred joined the business in 2003 having previously served as Deputy MD, HR director and Marketing and Commercial director of the UK home credit division of Provident Financial plc. He was responsible for new market development at IPF before being appointed Group Development Director in August 2010. He has responsibility for development and for the identification, researching and opening of new markets. Fred is a member of the Executive Committee.

**John Mitra**
Corporate Affairs Director

John joined the Group as Marketing and Communications Director in 2004 having previously worked for global companies including Rothmans, Sheaffer and Bic. He became Corporate Affairs Director in August 2010. John is responsible for developing and delivering the Group corporate communications strategy to optimise the regulatory and reputational aspects of the business and minimise regulatory risk.

**Ben Murphy**
Group Legal Director

Ben was promoted to Group Legal Director in March 2011, having joined the Group in 2008 to work on regulatory and legal matters. He is a solicitor and previously worked at Slaughter and May and Pinsent Masons, before joining William Hill PLC as in-house Legal Counsel. Ben is responsible for Group legal matters.

**Simon Quick**
Group Marketing Director

Simon joined the Group in February 2011 having previously undertaken a range of senior marketing and general management roles at Hearthstone Investments plc, AEGON Direct Marketing Services, Norwich Union Life, Barclays, TSB and Dixons. He is responsible for developing and implementing the marketing strategy for the business.

**Davie Thompson**
Field Operations Director

Davie joined the Group in January 2011 having previously spent 29 years at Provident Financial plc working at all levels of operational management in addition to managing a range of central functions. He is responsible for Field Operations and the Group Fraud team.

**Helen Thornton**
Human Resources Director

Helen joined the Group in 2009 having previously worked for National Express East Coast, British Airways and as HR Director for GNER. She is responsible for the development and implementation of an effective HR strategy for the business.

**John Williams**
Credit Director

John joined the Group in 2005 having previously worked for companies including GUS, The Associates and Marks & Spencer. His role includes managing all aspects of credit risk across all markets.

# Corporate governance statement

## What's in this section

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**Christopher Rodrigues, Chairman**

The Board believes that good corporate governance at all levels within the Group is fundamental to the success of the business. Our business model carries particular risks inherent in a business operating in emerging markets and effective governance and Board oversight is a crucial control.

My primary role as Chairman is to provide leadership to the Board and to provide the right environment to enable the directors and the Board as a whole to perform effectively to promote the success of the Company for the benefit of its shareholders. In doing so we take account of the interests of our customers, suppliers, the communities in which we operate and other interested stakeholders.

Good corporate governance is not an end in itself; good corporate governance is fundamental to the success of the business as it establishes a clear framework and ensures decisions are made at the appropriate level and that there is accountability.

I am pleased to report that the Company has complied with the UK Corporate Governance Code ('the Governance Code') throughout 2011. The corporate governance statement provides the detail of how good corporate governance has operated within the Group in 2011.

At the annual general meeting ('AGM') held in 2011, for the first time all the directors stood for re-election to ensure compliance with the provisions of the Governance Code.

For the second year running, in accordance with best practice, the Board evaluation was facilitated by an independent third party.

Other key topics covered are:

- the governance framework;
- the work of the Board and Committees;
- diversity;
- relations with shareholders;
- internal control and risk management; and
- environmental, social and governance matters.

During the year we have considered the report of Lord Davies on diversity. We fully support diversity both at Board level and throughout the organisation. Our commitment is to diversity in its broadest sense rather than simply in the context of gender. Given that our corporate office is in the UK but our businesses are across Central Europe and Mexico, we believe that diversity of nationality is also an important factor. The Board remains committed to ensuring it has a diverse composition and complies with the proposed changes to the Governance Code.

You will find more detail on all these topics in the corporate governance statement.

## Introduction to the corporate governance statement

This constitutes the corporate governance statement pursuant to Rule 7.2 of the Disclosure and Transparency Rules. It explains how the Company applied the main principles set out in Sections A-E of the Governance Code published by the Financial Reporting Council ('FRC') and dated June 2010 in the financial year ended on 31 December 2011. The Governance Code is available on the FRC's website at www.frc.org.uk.

## Statement of compliance with the Governance Code

The Board is of the opinion that the Company complied with all the provisions of the Governance Code throughout 2011.

## Governance framework

## The Board

### Members and attendance

The Board leads and controls the Company. There were eight meetings on scheduled days and one additional meeting. The members and their attendance at Board meetings in 2011 were as follows:

| Name | Number of meetings | Number attended |
|---|---|---|
| Christopher Rodrigues (Chairman) | 9 | 9 |
| David Broadbent (Finance Director)* | 9 | 7 |
| Charles Gregson (non-executive director) | 9 | 9 |
| Tony Hales (non-executive director) | 9 | 9 |
| John Harnett (Chief Executive Officer) | 9 | 9 |
| Edyta Kurek (non-executive director)** | 9 | 7 |
| John Lorimer (non-executive director)*** | 9 | 8 |
| Nicholas Page (non-executive director) | 9 | 9 |

*Mr Broadbent missed two meetings as he was on a study sabbatical at Harvard Business School.
**Ms Kurek missed two meetings due to other business commitments.
***Mr Lorimer missed one meeting due to another business commitment.

Gerard Ryan was appointed to the Board on 17 January 2012 as Chief Executive Officer (Designate). He will become Chief Executive Officer following John Harnett leaving the Board on 31 March 2012. Charles Gregson will leave the Board on 9 May 2012 when his final term ends.

# Corporate governance statement continued

## Matters reserved to the Board

The Board has a formal schedule of matters specifically reserved to it for decision. These include:

- Group strategy and risk appetite;
- approval of results;
- approval of budgets;
- approval of dividends;
- approval of major transactions;
- treasury policies;
- Board appointments;
- health and safety and environmental policy;
- corporate governance;
- annual review of the effectiveness of the Group's system of internal control;
- approval of directors' conflicts of interest; and
- certain credit policies; namely policies in respect of repeat lending, provisioning, write-off and material changes to product structure and pricing.

The Board has approved a statement of the division of responsibilities between the Chairman, the Chief Executive Officer and the Senior Independent Director.

The Chairman is responsible for chairing Board meetings and monitoring their effectiveness, and chairing the AGM and Nomination Committee.

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

The Senior Independent Director, is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer and Finance Director has failed to address or for whom such contact is inappropriate.

There are five principal Board Committees. Their written terms of reference are available on the Company's website (www.ipfin.co.uk) and from the Company Secretary.

## Chairman

The Chairman is also Chairman of VisitBritain and a non-executive director of Ladbrokes plc. There were no changes to his significant commitments in 2011.

## Non-executive directors

The independent non-executive directors have been appointed for a fixed period of three years, subject to re-election by shareholders. The initial period may be extended for a further period. Their letters of appointment may be inspected at the Company's registered office and are available from the Company Secretary. Each of the non-executive directors, with the exception of Charles Gregson, has been formally determined by the Board to be independent for the purposes of the Code.

## Re-election of directors

Under the Company's Articles of Association, each director must offer himself/herself for re-election every three years. After nine years a director, other than an executive director, must offer himself/herself for re-election annually. A director who is initially appointed by the Board is subject to election at the next AGM. Gerard Ryan will stand for election at the next AGM in line with this policy. The Company has decided that in accordance with best corporate governance practice all directors, other than those who are leaving, will offer themselves for re-election again this year. Details of the directors, including the reasons for proposing their election/re-election, are contained in the Chairman's letter to shareholders which will accompany the Notice of AGM.

## Terms of non-executive directors

The outstanding terms of office of the non-executive directors are shown below:

| 2012 | 2013 | | | |
|---|---|---|---|---|
| **May** | **Feb** | **May** | **June** | |
| Charles Gregson | Edyta Kurek | John Lorimer | Tony Hales | Nicholas Page |
| Final term ends | First term ends | First term ends | Second term ends | Second term ends |

## Policy on other Board appointments

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 adversely affect his/her executive responsibilities.

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

## Company Secretary and independent advice

All directors are able to consult with the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board. The Company Secretary is secretary to the Board Committees (other than the Disclosure Committee of which the Assistant Company Secretary is Secretary). There is a formal procedure by which any director may take independent professional advice at the Company's expense relating to the performance of his/her duties.

## Meetings

Eight Board meetings and a strategy retreat are scheduled for 2012. A detailed agenda and a pack of Board papers are made available electronically to each director a week before each meeting so he/she has sufficient time to review them. Additional meetings are convened if required and there is contact between meetings where necessary. The Chairman has held a number of sessions with the non-executive directors without executive directors present, and the non-executive directors have met without the Chairman.

## Board performance evaluation

As part of its best practice approach to corporate governance the Board engaged an external consultant, Professor Stuart Timperley, to carry out the Board performance evaluation for 2010. He has no other connection with the Company.

For 2011 it was decided that Professor Timperley should hold further follow-up meetings with Board members. Additionally, members of the Board would complete a questionnaire; the results of this were collated by the Company Secretary.

The Board performance evaluation was discussed at the February 2012 Board meeting. The Board formally considered diversity as part of the evaluation and concluded that diversity in its widest sense was desirable. A number of action points to further improve the efficiency of Board meetings would be incorporated into a plan.

# Corporate governance statement continued

## Training

The Company's policy is to provide appropriate training to directors, taking into account their individual qualifications and experience, including environmental, social and governance training as appropriate. From time to time the Company arranges presentations for the Board on topical subjects following Board meetings. For example, in May 2011 a presentation on the Bribery Act 2010 was given to the Board. The Company Secretary maintains a register of training for each director which is reviewed by the Board annually. The register was last reviewed by the Board at its meeting in January 2012. A comprehensive individually tailored induction plan is prepared for new directors.

## Relations with shareholders

The executive directors meet with institutional shareholders on a regular basis. The Chairman and Senior Independent Director also meet with shareholders from time to time. The Chairman is responsible for ensuring that appropriate channels of communication are established between the executive directors and shareholders and for ensuring that the views of shareholders are made known to the entire Board. Independent reviews of shareholder views are commissioned at least annually and the Board receives regular updates on investor relations.

The Board seeks to present the Company's position and prospects clearly. The Annual Report and Financial Statements, circulars and announcements made by the Company to the London Stock Exchange are posted on the Company's website (www.ipfin.co.uk).

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

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

## Report on the Executive Committee

Throughout 2011, this Committee consisted of John Harnett (Chairman), David Broadbent and Fred Forfar. Its remit is to:

- deal with matters which primarily relate to the day-to-day running of the Group; and
- deal with those matters specifically reserved to it for decision.

It met frequently in 2011 to process a wide range of matters, often of a technical nature.

Gerard Ryan became a member of the Committee on 17 January 2012.

## Report on the Disclosure Committee

Throughout 2011, this Committee consisted of John Harnett (Chairman), David Broadbent and Rosamond Marshall Smith. Its remit is to:

- ensure that the Company's obligations pursuant to the Disclosure and Transparency Rules and the Listing Rules of the FSA are discharged;
- maintain appropriate policies and procedures to ensure compliance; and
- approve certain announcements in relation to inside information.

It met 12 times in 2011, sometimes at short notice to consider whether an announcement to the London Stock Exchange was required.

## Report on the Nomination Committee

### Members and attendance

The members and their attendance at Committee meetings in 2011 were as follows:

| Name | Number of meetings | Number attended |
|---|---|---|
| Christopher Rodrigues (Chairman) | 6 | 6 |
| Tony Hales | 6 | 6 |
| John Harnett | 6 | 6 |
| Edyta Kurek* | 6 | 5 |
| John Lorimer | 6 | 6 |
| Nicholas Page | 6 | 6 |

*Ms Kurek missed one meeting due to another business commitment.

Further details of the members, including their qualifications, are set out in the section 'Our Board and Committees'.

### Remit

Its remit is to:

- assist the Board in the process of the selection and appointment of any new director and to recommend the appointment to the Board; and
- keep under review the size, structure and composition of the Board and succession.

### Work in 2011

The Committee has kept the size, structure and composition of the Board under review, including consideration of the Board structure and succession.

It oversaw the recruitment process which led to the appointment of Gerard Ryan on 17 January 2012. This included agreement of the job specification, the appointment of search consultants, consideration of candidates and recommendation of the favoured candidate to the Board.

The Committee fully supports diversity in the Board and takes this into account in its work. It has introduced a new policy whereby search consultants are requested, where practical and appropriate, to ensure that at least 50% of the long list of candidates is female.

## Report on the Remuneration Committee

### Members and attendance

The members and their attendance at Committee meetings in 2011 were as follows:

| Name | Number of meetings | Number attended |
|---|---|---|
| Tony Hales (Chairman) | 5 | 5 |
| John Lorimer* | 5 | 4 |
| Nicholas Page | 5 | 5 |

*Mr Lorimer was absent from one meeting as he was on holiday.

### Remit

Its remit is to:

- consider the framework of executive remuneration and make recommendations to the Board;
- determine the specific remuneration packages and conditions of service of the Chairman, the executive directors, the Senior Management Group and the Company Secretary; and
- determine the policy/approve awards under the Company's equity incentive schemes.

Full details of the work of the Remuneration Committee are contained in the Directors' Remuneration Report, which also contains details of the Company's equity incentive schemes.

# Corporate governance statement continued

## Report on the Audit and Risk Committee

### Members and attendance

The members and their attendance at Committee meetings in 2011 were as follows:

| Name | Number of meetings | Number attended |
|---|---|---|
| Nicholas Page (Chairman) | 6 | 6 |
| Tony Hales | 6 | 6 |
| John Lorimer | 6 | 6 |

In addition to the members, at the invitation of the Committee, meetings are attended by both the internal audit firm and the external auditor as required and by the Finance Director and the Head of Compliance and Risk. Country Managers or heads of function regularly present to the Committee on an aspect of the business. The Committee also meets from time to time with the internal audit firm and the external auditor without an executive director or member of the Company's senior management being present. The Head of Compliance and Risk reports directly to the Chairman of the Committee, which ensures that his/her independence from the management and operation of the business is maintained.

The Chairman of the Committee, Nicholas Page, has a degree in Philosophy, Politics and Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales. The Chairman is regarded as having relevant and recent experience for the purposes of the Governance Code. Further details of the members, including their qualifications, are set out in the section 'Our Board and Committees'.

### Remit

Its remit is to:

- make recommendations to the Board, for the Board to put to shareholders in general meeting in relation to the appointment of the external auditor, and in relation to the internal audit firm, and to approve their terms of appointment;
- review and monitor the objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- develop and implement policy on the engagement of the external auditor to supply non-audit services;
- monitor the integrity of the Financial Statements of the Company and the formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- keep under review the effectiveness of the Group's system of internal control, including operational and compliance controls and risk management;
- keep under review the Group risk register and to consider the most important risks facing the Group and their mitigation; and
- keep under review the Group's whistleblowing policy.

## Work in 2011

Two of the meetings each year are focused solely on risk. These are normally attended by the Chairman and the executive directors. The remaining meetings cover audit-related matters and the other areas within the remit of the Committee.

There is a co-sourced internal audit operation, with internal audit functions established in all the businesses under the direction of the Head of Compliance and Risk, and an internal audit firm performing special projects and such work as will allow them to report to the Committee on internal controls. Internal audit work is carried out by the local audit teams. The internal audit firm reviews the work of the internal audit function in order to provide assurance on the operation of internal controls for the purpose of the Governance Code and to carry out separate pieces of work on specific risk areas.

At the end of 2010 the Committee decided that, as the external auditor PricewaterhouseCoopers LLP ('PwC') had carried out the first three external audits and would complete a fourth, it was appropriate for there to be a formal tender for the position of external auditor. This was concluded in mid-March 2011. There was also a formal tender for the position of internal audit firm, which was then held by Ernst & Young. A full tender process was carried out for both positions. The process was managed by the Committee which made a recommendation to the Board in respect of each position, which the Board accepted. The Board proposed the appointment of Deloitte LLP ('Deloitte') as external auditor at the 2011 AGM. As a result Deloitte was appointed to the position of external auditor and PwC was appointed as the internal audit firm. Both appointments took effect from the date of the AGM on 11 May 2011.

During 2011 the Committee also:

- reviewed an internal audit activity report at each audit-focused meeting and considered a number of reports from the internal audit functions on specific areas of the business;
- considered a report by PwC on the results of its audit work (February) and considered a review by Deloitte of the financial information in the half-year report (July);
- received a presentation from Deloitte on the audit strategy for the 2011 audit and agreed this (December);
- agreed the internal audit plan for 2012 – this provides broad coverage of the business activities and includes reviews in each of the countries, together with the key corporate functions in the UK (December);
- reviewed comprehensively the Group risk register on two occasions and kept under review the principal risks facing the Group and plans and measures to mitigate the impact of these risks;
- received presentations on different areas of the business from senior managers; the topics were Group corporate affairs, collections and arrears management, tax risk, non-financial data assurance, and IT; and
- considered the internal controls/risks and reported to the Board.

In 2011 the following reviews were carried out by the internal audit firm:

- a review of the effectiveness of the internal audit functions in the countries;
- a review of IT projects implementation;
- a risk management review; and
- a credit systems review.

# Corporate governance statement continued

## Independence of auditor

The Committee ensures that the external auditor is, and is perceived to be, independent and has taken various steps to seek to ensure that this is, and remains, the case. The Committee considers a statement of independence from the external auditor once each year.

The Committee has adopted a policy on the appointment of employees from the auditor to positions within the various Group finance departments. This regulates the employment of key members of the audit engagement team as Finance Director or in certain other senior Group finance roles.

The Committee has adopted a policy on the use of the external auditor for non-audit work:

- the award of non-audit work to the auditor is managed in order to ensure that the auditor is able to conduct an independent audit and is perceived to be independent by the Group's shareholders and stakeholders;
- the performance of non-audit work by the auditor is minimised, requires the prior approval of the Head of Compliance and Risk and such work is awarded only when, by virtue of knowledge, skills or experience, the auditor is clearly to be preferred over alternative suppliers;
- the Group maintains an active relationship with at least two other professional accounting firms;
- no information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditor without the prior approval of the Chairman of the Committee, such approval to be given only in exceptional circumstances;
- the Chairman of the Committee must approve in advance any single award of non-audit work with an aggregate cost of £30,000 or more;
- the auditor may not perform internal audit work;
- the external auditor will normally be used for audit-related services specified as such in the APB Ethical Standards for Auditors; and
- the Committee keeps under review the non-audit work carried out by the auditor. Fees paid to the external auditor in 2011 are set out in note 4 of the notes to the Financial Statements.

The non-audit services carried out by PwC up to 11 May 2011 were as follows:

| Work carried out | Fee £000 |
|---|---|
| Tax services | 29 |
| General accounting advice | 5 |
| Other | 5 |
| **Total** | **39** |

The non-audit services carried out by Deloitte in 2011 were as follows:

| Work carried out | Fee £000 |
|---|---|
| Tax services | 27* |
| General accounting advice | 10 |
| Other | 6 |
| **Total** | **43** |

*An additional £48,000 was incurred prior to the appointment of Deloitte as auditor.

## Appointment of auditor

A resolution to reappoint Deloitte as auditor will be proposed at the forthcoming AGM. At its February 2012 meeting, the Committee recommended the reappointment of Deloitte to the Board.

## Internal control and risk management

### Risk management process

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has approved a Risk Appetite Statement. This sets out Group risks, the Group's risk appetite and the principal actions undertaken to mitigate the impact of each risk.

The Board approves a detailed budget each year (usually in December) for the year ahead. It also approves outline projections for the subsequent four years. Actual performance against budget is monitored in detail regularly and reported monthly for review by the directors.

The Board requires its subsidiaries to operate in accordance with corporate policies and to certify compliance with these policies on an annual basis or, where a matter of non-compliance has been identified, to state the exception and the reason for it.

The Risk Advisory Group, which consists of the Chairman, the Chief Executive Officer, the Finance Director, the Group Legal Director and the Head of Compliance and Risk, meets four times a year. It reports to the Audit and Risk Committee. Twice a year it considers the risk assessments and risk registers produced in each country and updates the Group risk register and principal risks. It considers areas of specific risk and particular issues.

The Audit and Risk Committee considers the Group risk register and the nature and extent of the risks facing the Group. It reviews the principal risks and the framework to manage and mitigate such risks and reports to the Board on a regular basis.

The Audit and Risk Committee keeps under review the adequacy of internal financial controls in conjunction with the Head of Compliance and Risk and the internal audit firm and reports to the Board regularly. The operation of internal financial controls is further monitored, including a procedure by which operating companies certify compliance quarterly.

The Consolidated Financial Statements for the Group are prepared by aggregating submissions from each statutory entity. Prior to submission to the Group reporting team, the individual country submissions are reviewed and approved by the Finance Director of the relevant country. Once the submissions have been aggregated and consolidation adjustments made to remove intercompany transactions, the consolidated result is reviewed by the Finance Director. The results are compared to 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 Finance Director. The supporting notes to the Financial Statements, which cannot all be agreed directly to the consolidation, are prepared by aggregating submission templates from each market and combining this with central information where applicable. The Financial Statements and all supporting notes are reviewed and approved by the Group Head of Finance and the Finance Director; these are signed by the Chief Executive Officer and the Finance Director.

# Corporate governance statement continued

## Review of effectiveness

In accordance with the Guidance on Audit Committees issued by the FRC in 2010, the Board has reviewed the effectiveness of the Group's framework of internal controls, including financial, operational and compliance controls and risk management systems, during 2011. The process for identifying, evaluating and managing the significant risks faced by the Group was in place throughout 2011 and up to 29 February 2012. The Board also, where appropriate, ensures that necessary actions have been or are being taken to remedy significant failings or weaknesses identified from the review of the effectiveness of internal control.

## Environmental, social and governance matters

During the year, the Company and its subsidiaries made donations of £55,823 for (UK) charitable purposes. Community investment across the Group totalled £1,172,572 in cash, employee time, management costs and in-kind contributions to charitable and community investment organisations. A further £105,394 was raised through leverage (including fundraising and matched funding). The Group's community data is reported in line with the London Benchmarking Group methodology and is independently assured by the Corporate Citizenship Company. No political donations were made.

The Board takes regular account of the significance of environmental, social and governance ('ESG') matters to the Group and has identified and assessed the significance of ESG risks to the Company's short and long-term value as part of the risk management process. It recognises that a proactive programme of reputation management through a range of progressive, responsible business initiatives adds to the sustainable long-term value of the Company. Responsibility for this area rests with the Chief Executive Officer, who chairs the Sustainability Steering Committee which sets guidance, provides direction and oversees policies and progress to ensure that the Company is a leader in its approach to ESG matters.

Key ESG issues for the business that impact upon its stakeholders are: public perception and ensuring work with communities is relevant; social and financial exclusion; health and safety; business ethics in emerging markets; and attracting and retaining skilled and well-motivated labour.

Adequate information is received by the Board to make an assessment of key ESG issues. Corporate affairs activity, health and safety and people management issues were all discussed at Board meetings in 2011. The Board formally reviews a sustainability report at least once a year. Details of training for directors are set out in the training section of this corporate governance statement.

The Board is committed to diversity both at Board level and throughout the organisation. This commitment is to diversity in its broadest sense rather than simply in the context of gender. Given that the corporate office is in the UK but the businesses are across Central Europe and Mexico, diversity of nationality is regarded as an important factor. The Board remains committed to ensuring it has a diverse composition. However, it is not considered appropriate to set formal targets in respect of gender. The Company collects data in respect of the number of women at different levels and thus will be able to keep the position under review.

As at 31 December 2011 the percentage of women employees at different levels within the Group was as follows:

| Level | % of women |
|---|---|
| Group Board | 13 |
| Level immediately below the Group Board | 12 |
| Senior management level | 22 |
| Middle management level | 29 |
| Junior management level | 34 |
| Group as a whole | 47 |

Note: Agents in Hungary (who are employees, unlike the position in the other markets) have been excluded.

The Group attaches great importance to the health and safety of its employees, agents and other people who may be affected by its activities. The Board has approved a policy and a framework for health and safety and introduced the international health and safety standard OHSAS 18001 across all businesses with the aim of full accreditation by the end of 2013. It has established a Group Safety Committee which is chaired by the Group Development Director. This Committee reports annually to the Board by means of a written report. Each subsidiary board is responsible for the issue and implementation of its own health and safety policy as it affects the subsidiary company's day-to-day responsibility for health and safety. Health and safety is considered regularly at board meetings within the Group.

There is a range of appropriate corporate standards, policies and governance structures covering all operations. Compliance with corporate policies is confirmed formally by means of a self-certification process once a year and is reported to the Board.

Community investment and environmental data are externally verified. The environmental management system is also subject to an annual independent internal audit against the requirements of ISO 14001. The Group achieved independent external assurance against the International Standard on Assurance Engagements (ISAE 3000) for selected Key Performance Indicators. Further details are in the Independent assurance report on page 71.

The Remuneration Committee is able to consider performance on ESG issues when setting the remuneration of executive directors and, where relevant, ESG matters are incorporated into the performance management systems and remuneration incentives of local business management. When setting incentives, the Remuneration Committee takes account of all implications, including the need to avoid inadvertently motivating inappropriate behaviour, and the Head of Compliance and Risk review incentives from a risk perspective.

In 2011, the executive directors were given specific objectives relating to ESG issues for the purposes of the annual bonus scheme: these related to leadership and succession planning. Details of the bonus scheme are set out in the bonus section of the statement of the Company's policy on directors' remuneration in the Directors' Remuneration Report.

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

## Share capital information

On 31 December 2011, there were 257,217,888 ordinary shares of 10 pence each in issue. No shares were issued during the year. The ordinary shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The full rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be viewed on the Company's website or obtained by writing to the Company Secretary or from Companies House in the UK. A summary of those rights and obligations can be found below.

The holders of ordinary shares are entitled to receive the Company's Annual Report and Financial Statements, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

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

Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

# Corporate governance statement continued

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

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

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

There are no known arrangements under which financial rights are held by a person other than the holder of the shares.

Shares to be acquired through the Company's share plans rank pari passu with the shares in issue and have no special rights.

The Company operates an employee trust with an independent trustee, Appleby Trust (Jersey) Limited, to hold shares pending employees becoming entitled to them under the Company's share incentive plans. On 31 December 2011, the trustee held 3,637,743 shares in the Company. The trust waives its dividend entitlement and abstains from voting the shares at general meetings.

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

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

- its bank facility agreements which provide for a negotiation period following a change of control of the Company and the ability of a lender to cancel its commitment and for outstanding amounts to become due and payable;
- its Euro Medium Term Note* programme which entitles any holder of a Note to require the Company to redeem such holder's Notes if there is a change of control of the Company and, following such change of control, the Notes are downgraded;
- its Polish Medium Term Note** 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 of the Company 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 the Company's share incentive plans may cause awards granted to directors and employees to vest on a takeover.

*The Euro Medium Term Note programme was established in 2010. The following Notes (listed on the London Stock Exchange) have been issued under the programme: Euro 225 million Notes issued in August 2010 with a five-year term and an 11.5% coupon; Romanian lei 36.5 million issued in February 2011 with a three-year term and a 12.0% coupon.
**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 30 June 2015 and the coupon is a floating rate of six-month WIBOR plus a margin of 750 basis points.

## Responsibilities and disclosure

### Annual Report and Financial Statements

The Company presents its own Annual Report and its Consolidated Annual Report as a single Annual Report.

### Directors' responsibilities in relation to the Financial Statements

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

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

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

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

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

## Responsibility statement

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

It is given by each of the directors: namely, Christopher Rodrigues, Chairman; John Harnett, Chief Executive Officer; David Broadbent, Finance Director; Gerard Ryan, Chief Executive Officer (Designate); Charles Gregson, non-executive director; Tony Hales, non-executive director; Edyta Kurek, non-executive director; John Lorimer, non-executive director; and Nicholas Page, non-executive director.

To the best of each director's knowledge:

a) the Financial Statements, prepared in accordance with the International Financial Reporting Standards, 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; and

b) the management 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.

## 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.

# Other information

## Directors' interests

As at 31 December 2011, the notifiable interests of each director (and his/her connected persons) under the Disclosure and Transparency Rules were as follows:

| Name | **Number of shares at 31 December 2011** | Number of shares at 31 December 2010 |
|---|---|---|
| Christopher Rodrigues | **218,562** | 218,562 |
| David Broadbent | **18,036** | 18,036 |
| Charles Gregson | **58,187** | 58,187 |
| Tony Hales | **25,000** | 25,000 |
| John Harnett | **267,905** | 267,905 |
| Edyta Kurek | **–** | – |
| John Lorimer | **18,727** | 18,320 |
| Nicholas Page | **50,674** | 50,674 |

In addition the following directors had interests in the Euro Medium Term Notes as follows:

| Name | **Euro Notes at 31 December 2011** | Euro Notes at 31 December 2010 |
|---|---|---|
| John Lorimer | **€194,000** | €194,000 |
| Nicholas Page | **€400,000** | €400,000 |

There were no changes in these interests between 31 December 2011 and 24 February 2012.

Details of awards of nil cost and other options to directors are set out in the sections on the Performance Share Plan, the CSOP, the Deferred Share Plan and the SAYE Scheme in the Directors' Remuneration Report.

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

## Directors' indemnities

The Company's Articles of Association permit it to indemnify directors of the Company (or of any associated company) in accordance with the Companies Act 2006. However, no qualifying indemnity provisions were in force in 2011 or at any time up to 29 February 2012 other than under the International Personal Finance plc Pension Scheme ('the Pension Scheme'). Under the deed establishing the Pension Scheme, the Company grants an indemnity to the trustee and the directors of the trustee. Two of these directors are directors of subsidiaries of the Company.

## Directors' conflicts of interest

To take account of the Companies Act 2006, the directors have adopted a policy on conflicts of interest and established a register of conflicts. The directors consider that these procedures have operated effectively in 2011 and up to 29 February 2012.

## Authority to allot shares

As at 31 December 2011, the directors had authority to allot further securities up to an aggregate nominal amount of £8,500,000 and, broadly, up to a further £8,500,000 for a rights issue. Further authorities will be sought at the forthcoming AGM.

## Equity incentive schemes

The Company currently operates four equity incentive schemes. Details of individual grants to directors made in 2011 are set out in the Directors' Remuneration Report. The schemes are as follows:

| Scheme | Abbreviated name | Eligible participants |
|---|---|---|
| The International Personal Finance plc Approved Company Share Option Plan | The CSOP | Executive directors and senior managers |
| The International Personal Finance plc Deferred Share Plan | The Deferred Share Plan | Executive directors and senior managers |
| The International Personal Finance plc Performance Share Plan | The Performance Share Plan | Executive directors and senior managers |
| The International Personal Finance plc Employee Savings-Related Share Option Scheme | The SAYE Scheme | Executive directors and UK employees |

Details of awards made in 2011 are as follows:

| Scheme | Date of grant | Number of shares | Exercise price (if any) | Normal exercise/vesting date |
|---|---|---|---|---|
| CSOP | 16 Mar 2011 | 48,200 | 311p | 16 Mar 2014 – 15 Mar 2021* |
| CSOP | 29 Jul 2011 | 37,404 | 321p | 29 Jul 2014 – 28 Jul 2021* |
| Deferred Share Plan | 24 Mar 2011 | 577,486 | – | 24 Mar 2014 – 23 Mar 2021 |
| Performance Share Plan | 16 Mar 2011 | 71,649 | – | 16 Mar 2014 – 15 Mar 2021* |
| Performance Share Plan | 29 Jul 2011 | 1,696,301 | – | 29 Jul 2014 – 28 Jul 2021* |
| SAYE Scheme | 31 Mar 2011 | 57,810 | 259p | 01 Jun 2014 – 30 Nov 2018** |
| SAYE Scheme | 22 Aug 2011 | 24,524 | 266p | 01 Oct 2014 – 31 Mar 2019** |

Details of outstanding awards are as follows:

| Scheme | Awards outstanding at 31 December 2010 | Awards lapsed in 2011 | Awards exercised/ vested in 2011 | Awards outstanding at 31 December 2011 | Exercise price (if any) | Normal exercise/ vesting date | Awards exercised/ vested from 1 January to 24 February 2012 |
|---|---|---|---|---|---|---|---|
| CSOP | 533,332 | (14,416) | – | 604,520 | 208p – 321p | 23 Jul 2013 – 28 Jul 2021* | – |
| Deferred Share Plan | – | – | – | 577,486 | – | 24 Mar 2014 – 23 Mar 2021 | – |
| Performance Share Plan | 2,539,453 | (168,660) | – | 4,138,743 | – | 20 Mar 2012 – 28 Jul 2021* | – |
| SAYE Scheme | 565,609 | (52,383) | (10,728) | 584,832 | 112p – 266p | 01 Jun 2011 – 31 Mar 2019** | – |

*Half of the awards that vest are not released for a further year.
**Vesting dates vary depending on whether the employee chose a three, five or seven-year savings contract.

## Authority to purchase shares

The Company had authority to purchase up to 25,721,700 of its own shares until the earlier of the conclusion of the next AGM and 11 August 2012. No shares were purchased pursuant to this authority. Any ordinary shares so purchased may be cancelled or held in treasury. A further authority for the Company to purchase its own shares will be sought from shareholders at the AGM.

# Other information continued

## Interests in voting rights

As at 31 December 2011, the Company had been notified, pursuant to the Disclosure and Transparency Rules, of the following notifiable voting rights in its issued share capital.

| Name | Voting rights | % of issued share capital | Nature of holding |
|---|---|---|---|
| Standard Life Investments Ltd | 18,094,615 | 7.03 | Direct/Indirect |
| FMR LLC | 13,090,419 | 5.08 | Indirect |
| J.P. Morgan Asset Management | 12,887,361 | 5.01 | Indirect |
| Marathon Asset Management LLP | 12,841,168 | 4.99 | Indirect |
| FIL Limited | 12,711,680 | 4.94 | Indirect |
| Old Mutual Asset Managers (UK) Ltd | 12,547,167 | 4.88 | Direct/Indirect |
| Schroders plc | 12,287,572 | 4.77 | Indirect |
| BlackRock, Inc. | 11,670,102 | 4.54 | Indirect |
| Norges Bank | 10,310,955 | 4.01 | Direct |
| Legal & General Group Plc | 9,890,889 | 3.84 | Direct |
| Investec Asset Management Ltd | 8,995,482 | 3.50 | Indirect |
| Oppenheimer Funds Inc/Baring Asset Management Limited | 7,769,836 | 3.02 | Indirect |

Between 1 January and 24 February 2012, the Company was notified, pursuant to the Disclosure and Transparency Rules, of the following notifiable voting rights in its issued share capital.

| Name | Voting rights | % of issued share capital | Nature of holding |
|---|---|---|---|
| Standard Life Investments Ltd | 20,633,805 | 8.02 | Direct/Indirect |

The holdings set out in the tables above relate only to those institutions which have notified the Company of an interest in the issued share capital.

## Supplier policy statement

The Company agrees terms and conditions for its business transactions with suppliers and payment is made in accordance with these, subject to the terms and conditions being met by the supplier.

The Company acts as a holding company and had no material trade creditors at 31 December 2011. The average number of days' credit taken by the Group during the year was 14 days (2010: 12 days).

## Key contracts and other arrangements

This information is given pursuant to Section 417(5)(c) of the Companies Act 2006. The trading subsidiaries have entered into contracts with their agents, who are self employed. The exception to this is Hungary where agents are employed for regulatory reasons. Agent agreements govern the relationship and the agents are remunerated primarily for what they collect.

Certain Group companies have entered into agreements with Fujitsu Services Limited, Mastek UK Limited, GTS Energis Sp. z o.o. and Metro Net S.A.P.I. in relation to IT services provided to the Group.

The Group's Hungarian subsidiary operates its credit granting activities under licence from PSZAF (the Hungarian financial supervisory authority). The Group's Romanian subsidiary is monitored by the National Bank of Romania ('NBR') in its capacity as monitoring and supervising authority. It is licensed by the NBR and recorded in the General Registry of Non-Banking Financial Institutions.

## Annual general meeting

The AGM will be held at 10.30am on Thursday, 24 May 2012 at International Personal Finance plc, Number Three, Leeds City Office Park, Meadow Lane, Leeds LS11 5BD. The notice of meeting, together with an explanation of the items of business, will be contained in the Chairman's letter to shareholders to be dated 22 March 2012.

Approved by the Board on 29 February 2012.

**Rosamond Marshall Smith**
Company Secretary

29 February 2012

# Directors' Remuneration Report

## What's in this section


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## Tony Hales, Chairman of the Remuneration Committee

"The remuneration policy applied by the Committee:

- is cognisant of the need to attract, motivate and retain talent via remuneration at appropriate market levels; and
- recognises the need for prudence and effective risk management in its reward structures."

The Remuneration Committee is committed to establishing appropriate, open and transparent remuneration policies. These are a key element in driving business performance and in aligning the interests of senior management and shareholders. The Remuneration Committee sets the profit targets and performance objectives for the bonus scheme and for the equity incentive schemes, taking into account the guidelines of investor bodies, shareholder views and the need to drive the business forward successfully.

The key elements of the remuneration of an executive director are set out below. There is a strong link between business performance and remuneration because the performance-linked elements depend on the performance of the Company.

Bonus payments are only made to the extent that the profit target is met and individual objectives are achieved. No bonus payments are made if the minimum profit target is not achieved. Awards under the equity incentive schemes will vest only if the Company's share price increases by more than a given percentage – whilst market volatility can affect the share price, ultimately it is successful business performance which drives the share price on a long-term basis.

The Committee takes account of the wider economic environment in making its decisions. In December 2011 the Committee decided to defer its review of basic salaries to take account of the current economic climate. At its February 2012 meeting the Committee decided that from 2013 the effective date of the annual salary review should be moved from 1 January to 1 April to facilitate clearer alignment between performance and salary reviews.

Gerard Ryan joined as Chief Executive Officer (Designate) on 17 January 2012 and the terms of his remuneration were approved by the Committee in line with the current policy. His initial awards under the Performance Share Plan and the Approved Company Share Option Plan ('the CSOP') will together have a value of 150% of his basic salary, which is the maximum awarded to a new executive director at initial appointment. For future years the normal annual limit of 100% of basic salary will apply.

## The possible indicative value of an initial award to Gerard Ryan under the Performance Share Plan is as follows:

| Assumptions | £ |
|---|---|
| Share price at grant date | 2.24* |
| Number of shares awarded | 298,214 |
| Total shareholder return ('TSR') | 1.90** |

*Illustrative based on the market value of the Company's shares as at 24 February 2012.
**Illustrative based on the market value of the Company's shares over the previous three months.

| Indicative share price at vesting £ | Indicative absolute TSR at vesting £ | % of award vesting | Number of shares vesting | Value of 50% exercised on vesting £ | Share price after four years £ | Value of 50% exercised after four years £ | Total award value £ |
|---|---|---|---|---|---|---|---|
| 2.00 | 2.18 | 0 | 0 | 0 | 2.00 | 0 | 0 |
| 2.50 | 2.73 | 62 | 185,050 | 231,312 | 2.50 | 231,312 | 462,624 |
| 3.00 | 3.28 | 100 | 298,214 | 447,321 | 3.00 | 447,321 | 894,642 |
| 3.50 | 3.82 | 100 | 298,214 | 521,875 | 3.50 | 521,874 | 1,043,749 |
| 4.00 | 4.37 | 100 | 298,214 | 596,428 | 4.00 | 596,428 | 1,192,856 |
| 4.50 | 4.92 | 100 | 298,214 | 670,982 | 4.50 | 670,981 | 1,341,963 |

Note: Indicative figures are estimates for this example only and not intended as a prediction of future performance.

## The key elements of the current policy for the remuneration of an executive director of the Company are as follows:

| Fixed | Comment |
|---|---|
| Salary | Basic salary reviewed annually – pensionable. |
| Benefits | Car allowance, life insurance, private medical insurance, long-term disability cover – not pensionable. |
| Pension contribution/allowance | Payment to a pension scheme designated by the director or, at the discretion of the Remuneration Committee, an allowance – 20% of basic salary. |

| Performance linked | Comment |
|---|---|
| Bonus | Up to 100% of salary, payable by reference to pre-tax profit and achievement of individual performance objectives, provided a minimum profit target is achieved. Two thirds of the bonus is deferred into shares pursuant to the Deferred Share Plan. |
| Equity incentive schemes – Performance Share Plan and Approved Company Share Option Plan (HMRC approved) | Annual awards with a value of 100% basic salary. Awards vest by reference to growth in absolute TSR* (30% for minimum vesting; 60% for full vesting; straight-line vesting in-between), subject to a Remuneration Committee discretionary underpin. |
| – Deferred Share Plan | Two thirds of the bonus is deferred into shares which normally vest at the end of three years. There is a matching award on a one-for-one basis. These matching awards vest by reference to growth in TSR* (30% for minimum vesting; 60% for full vesting; straight-line vesting in-between), subject to a Remuneration Committee discretionary underpin. |
| – Employee Savings-Related Share Option Scheme | Directors can save up to £15,000 over five years and use this amount, plus any interest, to acquire shares pursuant to an option granted at the outset with an option price up to 20% less than the market value of the shares at the time of grant. |

*TSR is calculated by reference to the increase in the Company's share price over a three-year performance period, plus net dividends reinvested over the performance period.

# Directors' Remuneration Report continued

**For 2011 the total remuneration of the executive directors was as follows:**

| | John Harnett £000 | David Broadbent £000 |
|---|---|---|
| Salary | 480 | 310 |
| Benefits | 23 | 19 |
| Pension contribution/allowance | 114 | 60 |
| Bonus – cash element | 322 | 72 |
| Equity incentive schemes – awards vested | – | – |
| **Total** | **939** | **461** |

Note: Based on PAYE earnings, taking into account all the elements of remuneration.

## Introduction

This is the Directors' Remuneration Report of International Personal Finance plc ('the Company') which has been prepared pursuant to, and in accordance with, Section 420 of the Companies Act 2006 ('the Companies Act') and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. In accordance with Section 439 of the Companies Act, a resolution to approve this report will be proposed at the annual general meeting ('AGM') of the Company to be held on 24 May 2012. The detail in this report sets out how the remuneration principles have been applied in 2011.

## Unaudited information

The following information, comprising details of the Remuneration Committee, the statement of the Company's policy on directors' remuneration, the directors' service agreements and the performance graph, is unaudited.

## The Remuneration Committee

### Members

Throughout 2011 the Committee consisted of John Lorimer and Nicholas Page under the Chairmanship of Tony Hales.

Further details are set out in the report on the Remuneration Committee in the corporate governance statement.

### Other matters

Kepler Associates ('Kepler') has been formally appointed by the Committee as its remuneration adviser. Kepler is independent and does not provide any other services to the Group. The fees paid to Kepler in respect of work carried out in 2011 totalled £41,935. The Chief Executive Officer normally attends and speaks at meetings of the Committee (other than when his own remuneration or any matter relating to him is being considered). No director is involved in determining his/her own remuneration.

The Company Secretary, Rosamond Marshall Smith, is Secretary to the Committee and attended the meetings of the Committee in 2011; as a solicitor she provides legal and technical support to the Committee. The Human Resources Director Helen Thornton also attended the meetings of the Committee and provides advice to the Committee.

## Statement of the Company's policy on directors' remuneration

### Key principles of the remuneration policy

The remuneration policy applied by the Committee:

- is cognisant of the need to attract, motivate and retain talent via remuneration at appropriate market levels; and
- recognises the need for prudence and effective risk management in its reward structures.

The remuneration policy is therefore founded on the following principles:

- target total remuneration reflecting effective performance will be around market median, with reference to an assessment of comparable positions from a cross-section of companies drawn from a combination of: relevant broad equity index, similar market capitalisation and broadly comparable sectoral profile;
- where performance has been demonstrated at a consistently high level, total remuneration above market median will be appropriate to attract and retain key talent;
- the fixed component of remuneration should be sufficient to allow for a fully flexible bonus plan; there will be no minimum bonus guarantees;
- flexible elements of total remuneration at executive director and senior management level are designed to ensure clear links to long-term performance, with suitably demanding targets aligned with the objective of creating sustainable shareholder value. This means that a significant proportion of bonus will be deferred, and all share-based incentives will be subject to an appropriate vesting period, as determined by the Remuneration Committee;
- no element of remuneration will be designed or applied in a way that is inconsistent with the Company's values and goals, or in a way that encourages the taking of inappropriate risk; and
- remuneration plans will be straightforward and easy to administer.

It is the Committee's policy to consult with major shareholders before making significant changes to the remuneration policy.

### Annual salary, benefits and fees

The executive directors' remuneration consists of a basic salary, an annual bonus (subject to performance conditions and with a deferred share element), participation in a long-term incentive plan and other benefits, namely pension contributions, life insurance of four times basic salary at date of death, a car allowance and long-term disability cover. Medical cover is provided for the executive directors and their immediate families. Benefits in kind are not pensionable.

The Committee normally reviews the executive directors' remuneration annually with effect from 1 January. In December 2011 the Committee decided that, in view of the current economic climate, the effective date of the annual salary review should be deferred until 1 March 2012. In making this decision the Committee took into account the pay and employment conditions within the Group and the fact that the annual review of salaries within the Group was being deferred until 1 March 2012.

At its February 2012 meeting the Committee decided to maintain the Finance Director's salary at its current level. It also decided that from 2013 the effective date of the annual salary review should be moved from 1 January to 1 April to facilitate clearer alignment between performance and salary reviews.

The weighted average* of the Chief Executive Officer's basic salary to average (median) employee basic salary is:

| Group | UK | Poland | Czech Republic | Slovakia | Hungary | Mexico | Romania |
|---|---|---|---|---|---|---|---|
| 23 | 8 | 21 | 23 | 28 | 21 | 33 | 27 |

*Weighting takes account of purchasing power in Central Europe, Mexico and Romania.

# Directors' Remuneration Report continued

The fees for the non-executive directors are fixed by the Board and are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience. Their business expenses are reimbursed by the Company. The basic non-executive fee is £50,000 a year. The Chairman of the Audit and Risk Committee receives an additional £15,000 and the Senior Independent Director/Chairman of the Remuneration Committee receives an additional £20,000 a year. The Chairman's salary was reviewed in May 2011 following consideration of market comparables and increased to £170,000 a year.

## Bonus and Deferred Share Plan

An annual bonus of up to a maximum of 100% of salary is payable to the executive directors by reference to pre-tax profit and achievement of individual performance conditions (which include, where applicable, appropriate environmental, social and governance matters) provided a minimum profit target is achieved. The bonus does not form part of pensionable earnings.

For 2011 a balanced scorecard approach was used whereby 50% of the bonus was calculated on pre-tax profit and, subject always to a minimum profit threshold, the remaining 50% calculated against stretching performance objectives based on the following areas: growth and development; culture and leadership; operational effectiveness; people; customer experience; and brand and reputation. Awards for achievement of performance objectives are expressed as a percentage of the award for profit and so will scale up or down according to the profit achievement. No bonus is payable unless a minimum profit threshold is achieved.

The bonus is payable partly in cash, and partly in deferred shares which will vest at the end of a three-year period, subject to the director not being dismissed for misconduct, under the International Personal Finance plc Deferred Share Plan ('the Deferred Share Plan').

There are also provisions for clawback in the event of a restatement of the Company's accounts or material misjudgement of performance. The Committee believes that this deferral into shares strengthens the alignment with shareholders' interests.

The Deferred Share Plan was amended by the Company in general meeting on 11 May 2011 to include a matching element. The match would be one-for-one for executive directors and one-for-three for the Senior Management Group. Matching awards will vest only to the extent that the performance condition is satisfied, namely growth in TSR on the same basis as for the International Personal Finance plc Performance Share Plan as set out in the section 'Performance Share Plan' below.

## Equity Incentive Schemes

In addition to the Deferred Share Plan, the Company currently operates three equity incentive schemes for directors and employees. These are:

- The International Personal Finance plc Performance Share Plan ('the Performance Share Plan');
- The International Personal Finance plc Approved Company Share Option Plan ('the CSOP'); and
- The International Personal Finance plc Employee Savings-Related Share Option Scheme ('the SAYE Scheme').

## Performance Share Plan

Executive directors and senior management all participate in this plan. The policy is for annual awards of up to 100% of basic salary to be made to executive directors and of up to 75% to senior managers. In the case of the Chief Executive Officer (Designate) the first grant following his appointment, to be made in March 2012, will be an award of 150% of basic salary (less the value of the award to be made under the CSOP). The awards, generally made as nil cost options over a specific number of shares, will vest after a three-year performance period with vesting determined by absolute TSR performance targets as set out in the table below and by employment conditions.

| TSR growth over three-year performance period | Percentage of award that will vest |
|---|---|
| Less than 30% growth | Nil |
| 30% growth | 33% |
| Between 30% and 60% growth | Between 33% and 100% on a straight-line basis |
| 60% growth or more | 100% |

50% of vested awards will be released after the end of the performance period, with 50% deferred for an additional 12 months. The Committee believes that absolute TSR is a simple and objective measure of shareholder value creation and appropriate for the Company, given the lack of comparable listed companies. In addition to meeting the TSR target, for any shares to vest the Committee will need to satisfy itself that the absolute TSR performance is a fair reflection of performance, specifically with regard to the Company's TSR relative to the median TSR of the FTSE 250.

## CSOP

The CSOP is an HM Revenue & Customs approved scheme. The use of these options may enable part of a UK-based executive or senior manager's rewards from share plans to be received with relief from income tax and national insurance contributions within the thresholds permitted by HM Revenue & Customs, which allows options over shares with a value of £30,000 at the time of option grant to be held by an individual under the CSOP at any time. Where an individual who receives CSOP share options also participates in an award made under the Performance Share Plan, the award under the Performance Share Plan is scaled back appropriately to reflect the grant of CSOP share options, and grants made under both plans have the same performance conditions for vesting.

## SAYE Scheme

The executive directors (together with other UK Group employees) may participate in the SAYE Scheme, which has been approved by HM Revenue & Customs. Participants save a fixed sum each month for three or five years and may use these funds to purchase shares after three, five or seven years. The exercise price is fixed at up to 20% below the market value of the shares at the date directors and employees are invited to participate in the scheme. Up to £250 can be saved each month. This scheme does not contain performance conditions as it is an HM Revenue & Customs approved scheme open to employees at all levels.

## Service agreements

Executive directors' service agreements provide for both the Company and the director to give one year's notice. No director has a service agreement containing a liquidated damages clause on termination; in the event of the termination of an agreement, the Company seeks mitigation of loss by the director concerned and aims to ensure that any payment made is the minimum which is commensurate with the Company's legal obligations.

## Other directorships

The Company will normally permit an executive director to hold one non-executive directorship and to retain the fee from that appointment, subject to the prior approval of the Board. No executive director currently holds such a position.

## Shareholding policy

Directors and senior managers are expected to acquire over a five-year period from 1 January 2011 (or from appointment) a beneficial shareholding as follows:

| Category | Number of shares |
|---|---|
| Chairman | 45,000 |
| Chief Executive Officer | 250,000 |
| Other executive directors | 150,000 |
| Non-executive directors | 15,000 |
| Senior Management Group | 40,000 |
| Other senior managers (dependent on seniority) | 12,000/6,000 |

## Senior management remuneration

The Committee also determines the structure and level of pay of the Senior Management Group and Company Secretary. Half of the Senior Management Group currently have salaries ranging from £125,000 to £150,000 and half have salaries ranging from £150,001 to £195,000.

# Directors' Remuneration Report continued

## Details of directors' service agreements

### Chairman

Christopher Rodrigues has a letter of appointment with the Company dated 4 January 2010, terminable on three months' notice from him or the Company. There are no provisions for compensation payable on early termination.

### Executive directors

John Harnett has a service agreement dated 19 June 2007, as varied on 22 October 2008 and 11 December 2009. David Broadbent has a service agreement dated 21 June 2007, as varied on 11 December 2009 and in December 2010. Gerard Ryan has a service agreement dated 17 January 2012.

Each of these service agreements is terminable upon one year's notice from the relevant director or the Company. There are no provisions giving the director a right to specified compensation payable on early termination. However, in the event that a director is not re-elected at an AGM of the Company, the agreement is automatically terminated and this is treated as a breach by the Company.

### Non-executive directors

A non-executive director is 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.

Charles Gregson has a letter of appointment dated 12 June 2007 (as amended by letters dated 12 May 2010 and 11 May 2011) and has been appointed until 9 May 2012. Tony Hales and Nicholas Page each has a letter of appointment dated 12 June 2007 (as amended by a letter dated 12 May 2010) and has been appointed until 30 June 2013. Edyta Kurek has a letter of appointment dated 15 February 2010 and has been appointed until 28 February 2013. John Lorimer has a letter of appointment dated 12 May 2010 and has been appointed until 30 May 2013.

### Election and re-election of directors

At the AGM, Gerard Ryan will be standing for election and all the other directors, with the exception of John Harnett and Charles Gregson who are leaving the Board, will be offering themselves for re-election.

## Performance graph

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

Source: Thomson Reuters Datastream.

## Audited information

The following information, comprising details of the directors' remuneration, directors' pension provision, the Group's equity incentive schemes and compensation, is audited in accordance with the requirements of the Companies Act 2006.

## Directors' remuneration

### Remuneration

The directors' remuneration for 2011 amounted to £1,674,000 (2010: £1,342,000) analysed as follows:

| Director's name | Salary £000 | Cash element of bonus £000 | Benefits £000 | Fees £000 | **2011 Total £000** | 2010 Total £000 |
|---|---|---|---|---|---|---|
| Christopher Rodrigues | 163 | – | – | – | **163** | 153 |
| John Harnett | 480 | 322 | 23 | – | **825** | 588 |
| David Broadbent | 310 | 72 | 19 | – | **401** | 350 |
| Charles Gregson | – | – | – | 50 | **50** | 49 |
| Tony Hales | – | – | – | 70 | **70** | 62 |
| Edyta Kurek | – | – | – | 50 | **50** | 44 |
| John Lorimer | – | – | – | 50 | **50** | 32 |
| Nicholas Page | – | – | – | 65 | **65** | 64 |
| **Total** | **953** | **394** | **42** | **285** | **1,674** | **1,342** |

John Harnett has been awarded a bonus of £322,416 constituting 67.17% of his 2011 basic salary. Of this, 40.71% was payable by reference to pre-tax profit of the Group for 2011 and 26.46% was payable by reference to performance objectives.

David Broadbent has been awarded a bonus of £214,551 constituting 69.21% of his 2011 basic salary. Of this, 40.71% was payable by reference to pre-tax profit of the Group for 2011 and 28.50% was payable by reference to performance objectives.

Two thirds of David Broadbent's bonus will be deferred into shares under the Deferred Share Plan, thus only the cash element is shown above. As John Harnett is leaving the Company on 31 March 2012, he will not participate in the Deferred Share Plan and so his bonus, as shown above, is payable in cash.

Details of the 2011 objectives are set out below. 50% of the bonus is calculated by reference to pre-tax profit of the Group and 50% by reference to performance objectives. Awards for achievement of performance objectives are expressed as a percentage of the award for profit and so scale up or down accordingly.

#### John Harnett

| Summary of objective | Percentage |
|---|---|
| Ensure business is on track to achieve specified five-year profit measures | 15% |
| The achievement of specified milestones in relation to the business in Mexico | 30% |
| The achievement of specified measures in relation to senior management development and resource | 20% |
| The achievement of scheduled progress for business transformation | 35% |
| | 100% |

At its February 2012 meeting, the Remuneration Committee determined that the overall percentage achieved in respect of performance objectives was 65%.

# Directors' Remuneration Report continued

### David Broadbent

| Summary of objective | Percentage |
|---|---|
| Ensure business is on track to achieve specified five-year profit measures | 15% |
| The achievement of specified measures in relation to senior management development and resource | 30% |
| The achievement of specified measures in relation to business transformation | 35% |
| Delivery of scheduled developments in debt recovery and arrears management processes | 20% |
| | 100% |

At its February 2012 meeting, the Remuneration Committee determined that the overall percentage achieved in respect of performance objectives was 70%.

## Performance Share Plan

### Awards

Awards made under the Performance Share Plan to executive directors are as follows:

| Director's name | Awards held at 31 December 2010 | Awards made in 2011 | Date of award | Awards held at 31 December 2011 | Performance condition period | Starting TSR (p) | Exercise period |
|---|---|---|---|---|---|---|---|
| David Broadbent | 116,735 | | 23 Jul 2010 | 116,735 | 23 Jul 2010 – 22 Jul 2013 | 221 | 23 Jul 2013 – 22 Jul 2020 |
| | | 96,633 | 29 Jul 2011 | 96,633 | 29 Jul 2011 – 28 Jul 2014 | 357 | 29 Jul 2014 – 28 Jul 2021 |
| | | | | **213,368** | | | |
| John Harnett | 212,843 | | 23 Jul 2010 | 212,843 | 23 Jul 2010 – 22 Jul 2013 | 221 | 23 Jul 2013 – 22 Jul 2020* |
| | | 149,626 | 29 Jul 2011 | 149,626 | 29 Jul 2011 – 28 Jul 2014 | 357 | 29 Jul 2014 – 28 Jul 2021* |
| | | | | **362,469** | | | |

*Under the terms of a compromise agreement entered into on 17 January 2012 the exercise period was amended: see the section 'Compensation' below.

### Notes to awards

The awards are nil cost options to acquire shares for £nil consideration. No consideration is payable on the grant of an option. 33% of the award will vest if TSR growth is 30% and 100% will vest if TSR growth is 60%. If growth in TSR is between 30% and 60%, vesting will be on a straight-line basis. 50% of the award may be exercised after the end of the performance period, with the other 50% exercisable after a further year.

There were no changes in the interests of directors under the Performance Share Plan between 31 December 2011 and 24 February 2012.

There were no variations in the terms and conditions of plan interests during 2011.

The mid-market closing price of the Company's shares on 30 December 2011 was 171 pence and the range during 2011 was 156 pence to 389 pence.

## CSOP

### Awards

Awards made under the CSOP to executive directors are as follows:

| Director's name | Awards held at 31 December 2010 | Awards made in 2011 | Awards held at 31 December 2011 | Performance condition period | Starting TSR (p) | Exercise period | Exercise price (p) |
|---|---|---|---|---|---|---|---|
| David Broadbent | 14,416 | – | 14,416 | 23 Jul 2010 – 22 Jul 2013 | 221 | 23 Jul 2013 – 22 Jul 2020 | 208 |
| | | | **14,416** | | | | |
| John Harnett | 14,416 | – | 14,416 | 23 Jul 2010 – 22 Jul 2013 | 221 | 23 Jul 2013 – 22 Jul 2020* | 208 |
| | | | **14,416** | | | | |

*Under the terms of a compromise agreement entered into on 17 January 2012 the exercise period was amended: see the section 'Compensation' below.

#### Notes to awards

The awards are options to acquire shares for their market value at the date of grant. No consideration is payable on the grant of an option. 33% of the award will vest if TSR growth is 30% and 100% will vest if TSR growth is 60%. If growth in TSR is between 30% and 60%, vesting will be on a straight-line basis. 50% of the award may be exercised after the end of the performance period with the other 50% exercisable after a further year.

There were no changes in the interests of the directors under the CSOP between 31 December 2011 and 24 February 2012.

There were no variations in the terms and conditions of plan interests during 2011.

The mid-market closing price of the Company's shares on 30 December 2011 was 171 pence and the range during 2011 was 156 pence to 389 pence.

## Deferred Share Plan

### Awards

Awards made under the Deferred Share Plan to executive directors are as follows:

| Director's name | Awards held at 31 December 2010 | Awards made in 2011 | Date of award | Awards held at 31 December 2011 | Exercise period |
|---|---|---|---|---|---|
| David Broadbent | – | 42,504 | 24 Mar 2011 | 42,504 | 24 Mar 2014 – 23 Mar 2021 |
| | | | | **42,504** | |
| John Harnett | – | 75,564 | 24 Mar 2011 | 75,564 | 24 Mar 2014 – 23 Mar 2021* |
| | | | | **75,564** | |

*Under the terms of a compromise agreement entered into on 17 January 2012 the exercise period was amended so the exercise period expires on 23 September 2014: see the section 'Compensation' below.

#### Notes to awards

The awards were granted in respect of the deferred element of the 2010 bonus scheme for executive directors. They are nil cost options to acquire shares for £nil consideration. There are no performance conditions.

There were no changes in the interests of directors under the Deferred Share Plan between 31 December 2011 and 24 February 2012.

There were no variations in the terms and conditions of plan interests during 2011.

The mid-market closing price of the Company's shares on 30 December 2011 was 171 pence and the range during 2011 was 156 pence to 389 pence.

# Directors' Remuneration Report continued

## SAYE Scheme

### Award

The award made under the SAYE Scheme to an executive director is as follows:

| Director's name | Awards held at 31 December 2010 | Awards made in 2011 | Awards held at 31 December 2011 | Normal exercisable dates | Exercise price (p) |
|---|---|---|---|---|---|
| David Broadbent | 8,936 | – | 8,936 | 1 Jun 2013 – 1 Dec 2013 | 188 |

### Notes to award

No consideration is payable on the grant of an option.

There were no changes in the interests of the director under the SAYE Scheme between 31 December 2011 and 24 February 2012.

There were no variations in the terms and conditions of scheme interests during 2011.

The mid-market closing price of the Company's shares on 30 December 2011 was 171 pence and the range during 2011 was 156 pence to 389 pence.

## Pensions

### Background

The Company has established two pension schemes. These are 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. Following a pensions review, in 2010 the Pension Scheme was closed to future accrual and all the active members became deferred members. They were offered membership of the Stakeholder Scheme with effect from 1 March 2010.

- the Pension Scheme is a defined benefit scheme with two sections: cash balance and final salary. The Company will continue to fund the cash balance pension pot or final salary built up by members up to 28 February 2010. Benefits will increase from 1 March 2010 until normal retirement date broadly in line with inflation up to a maximum of 5% a year; and
- the Stakeholder Scheme is managed by Legal & General Assurance Society Limited. Employees contribute a minimum of 5% and the Company contributes a percentage of basic salary, depending on the employee's seniority.

It was also decided by the Committee as part of the pensions review that the standard rate of company pension contribution for any executive director should be 20% of basic salary, but that existing executive directors already receiving higher contributions should continue to do so unless and until it became appropriate to make a change. At the discretion of the Remuneration Committee, part may be paid as a cash allowance.

## Chief Executive Officer

John Harnett has a defined contribution personal pension arrangement. He is entitled to receive a contribution of 25% of his basic salary to his pension arrangements. The Company's contributions in respect of John Harnett during 2011 amounted to £113,634, of which £67,500 was paid into pension arrangements and £46,134 was paid as a cash allowance.

## Finance Director

David Broadbent was a member of the final salary section of the Pension Scheme until 1 April 2006 when he began to accrue benefits as a member of the cash balance section. He ceased to be a member of the cash balance section on 31 July 2008 and became a deferred member of the Pension Scheme.

Details of David Broadbent's entitlements under both sections of the Pension Scheme are as follows:

| Final salary | £ |
|---|---|
| Accrued pension at 31 December 2011 | 13,619 |
| Accrued pension at 31 December 2010 | 13,020 |
| Increase in accrued pension during the year (net of inflation) | – |
| Transfer value of net increase in accrual over period | – |
| Transfer value of accrued pension at 31 December 2011 | 165,650 |
| Transfer value of accrued pension at 31 December 2010 | 114,654 |
| Total change in transfer value during the period (net of director's contributions) | 50,996 |
| Director's contributions in 2011 | – |

| Cash balance | £ |
|---|---|
| Accrued cash balance lump sum at 31 December 2011 | 97,087 |
| Accrued cash balance lump sum at 31 December 2010 | 92,817 |
| Increase in cash balance lump sum during the year (net of inflation) | – |
| Transfer value of net increase in accrual over period | – |
| Transfer value at 31 December 2011 | 44,979 |
| Transfer value at 31 December 2010 | 35,736 |
| Total change in transfer value during the period (net of director's contributions) | 9,243 |
| Director's contributions in 2011 | – |

David Broadbent was age 43 at the end of the year.

David Broadbent now has a defined contribution personal pension arrangement. He is entitled to receive a contribution of 20% of his basic salary to his pension arrangements. The Company's contributions in respect of David Broadbent during 2011 amounted to £60,242, of which £55,583 was paid into pension arrangements and £4,659 was paid as a cash allowance.

# Directors' Remuneration Report continued

## Compensation

John Harnett will cease to be a director on 31 March 2012.

Pursuant to a compromise agreement made on 17 January 2012, he will receive £626,770 which represents 12 months' pay in lieu of notice (salary and contractual benefits) paid monthly in instalments and subject to a £ for £ offset if alternative employment (excluding non-executive directorships) is secured during that period.

He will be eligible for a tailored incentive of up to 20% of basic salary linked to specific objectives during the period up to 31 March 2012. Any payment is at the discretion of the Remuneration Committee.

In addition, the Remuneration Committee has exercised its discretion to permit John Harnett to retain the award over 14,416 shares granted to him under the CSOP in July 2010, the award over 212,843 shares granted to him under the Performance Share Plan in July 2010 and the award over 149,626 shares granted to him under the Performance Share Plan in July 2011.

The performance condition will be applied in the usual way at the end of the three-year performance period, but the number of shares which vest will be reduced by being time prorated based on the number of complete months from the date of grant of each award to 31 March 2013 or (if earlier) the date of notification by John Harnett of his securing alternative employment.

Half of the award under the CSOP may be exercised within a year of the performance condition being satisfied, with the other half exercisable within a year from the first anniversary of the date the award became exercisable.

Half of the award under the Performance Share Plan may be exercised within a year of the performance condition being satisfied, with the other half exercisable within a year of the anniversary of the end of the relevant performance condition.

The Committee considers that the compensation represented a fair settlement of the Company's contractual and statutory obligations and took account of the director's duty to mitigate.

Approved by the Board on 29 February 2012.

**Rosamond Marshall Smith**
Company Secretary

29 February 2012

# Independent assurance report

## to the directors of International Personal Finance plc on selected performance information

We have been engaged by the directors of International Personal Finance plc ('the Company') to perform an independent assurance engagement in respect of selected performance information (hereafter 'Selected Information') contained in the International Personal Finance plc Annual Report and Financial Statements for the year ended 31 December 2011.

The Selected Information for the year ended 31 December 2011 subject to limited assurance is presented on pages 18 to 21 and marked with ▲; it consists of the following:

- customer numbers;
- customer retention;
- agents;
- agent retention;
- credit exceptions; and
- customer service score.

We also assured the restatement of the 31 December 2010 data for customer service score. This was performed based on new criteria defined.

### Assurance work performed

We conducted this limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' ('ISAE 3000') issued by the International Auditing and Assurance Standards Board.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement under ISAE 3000. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement.

Our limited assurance procedures included:

- making enquiries of relevant management of the Company, including the Senior Management Group, and reviewing a sample of relevant management information including reports to the Senior Management Group;
- evaluating the design and implementation of the key processes and controls for managing and reporting the Selected Information, including controls over third-party information where applicable;
- limited testing, on a selective basis at central and country level, of the preparation and collation of the Selected Information prepared by the Company; and
- reviewing internal audit reports where the terms of reference and/or findings are relevant to the Selected Information.

### Limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable preparation techniques which can result in materially different results and can impact comparability. Furthermore, the nature and methods used to determine such information, as well as the criteria may change over time. It is important to read the Selected Information in the context of the Basis of Preparation at www.ipfin.co.uk/sustainability/reporting/basisofreporting.

The customer service score results rely on information from a customer interview programme; in one country interviews are conducted by a third-party organisation. Our assurance work has not included an examination of the interview exercises or the information provided by the customers to the interviewing organisation.

### Conclusion

Based on the results of the assurance work performed, nothing has come to our attention that causes us to believe that, for the year ended 31 December 2011, the Selected Information has not been stated, in all material respects, in accordance with the Company's Basis of Preparation.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds

29 February 2012

**Respective responsibilities of the directors and PricewaterhouseCoopers LLP**

The directors are responsible for the preparation of the Selected Information in accordance with the criteria set out in the Company's 'Basis of Preparation', see www.ipfin.co.uk/sustainability/reporting/basisofreporting, and for the development of the criteria.

Our responsibility is to form an independent conclusion, based on limited assurance procedures, on whether anything has come to our attention to indicate that the Selected Information is not stated, in all material respects, in accordance with the Company's Basis of Preparation.

This report, including the conclusion, has been prepared for the directors of the Company as a body, to assist the directors in reporting the Company's performance in relation to the Selected Information. We permit the disclosure of this report within the Annual Report and Financial Statements for the year ended 31 December 2011, to enable the directors to demonstrate that they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body and the Company for our work on this report save where terms are expressly agreed and with our prior consent in writing.

# Independent auditor's report

## to the members of International Personal Finance plc

We have audited the Financial Statements of International Personal Finance plc for the year ended 31 December 2011 which comprise the consolidated income statement, statements of comprehensive income, balance sheets, statements of changes in equity, cash flow statements, accounting policies and related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (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.

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.

### Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the Financial Statements

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

### Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with 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.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 37, in relation to going concern; and
- the parts of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Stephen Williams (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom

29 February 2012

# Consolidated income statement

## for the year ended 31 December

| Group | Notes | **2011 £m** | 2010 Pre-exceptional items £m | 2010 Exceptional items (note 10) £m | 2010 £m |
|---|---|---|---|---|---|
| Revenue | 1 | **649.5** | 608.7 | – | 608.7 |
| Impairment | 1 | **(167.7)** | (168.1) | – | (168.1) |
| **Revenue less impairment** | | **481.8** | 440.6 | – | 440.6 |
| Finance costs | 2 | **(42.9)** | (33.9) | (6.8) | (40.7) |
| Other operating costs | | **(97.1)** | (93.7) | – | (93.7) |
| Administrative expenses | | **(241.3)** | (220.9) | 2.9 | (218.0) |
| **Total costs** | | **(381.3)** | (348.5) | (3.9) | (352.4) |
| **Profit before taxation** | | **100.5** | 92.1 | (3.9) | 88.2 |
| Tax income/(expense) – UK | | **0.8** | 0.9 | (0.8) | 0.1 |
| – overseas | | **(24.8)** | (30.7) | 1.6 | (29.1) |
| Total tax (expense)/income | 5 | **(24.0)** | (29.8) | 0.8 | (29.0) |
| **Profit after taxation attributable to owners of the parent** | | **76.5** | 62.3 | (3.1) | 59.2 |

The profit for the period is from continuing operations.

| Group | Notes | **2011 pence** | 2010 pence |
|---|---|---|---|
| **Earnings per share – total** | | | |
| Basic | 6 | **30.17** | 23.34 |
| Diluted | 6 | **29.57** | 23.09 |

The accounting policies and notes 1 to 30 are an integral part of these Consolidated Financial Statements.

Financial Statements

# Statements of comprehensive income

## for the year ended 31 December

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| **Profit/(loss) after taxation attributable to owners of the parent** | | **76.5** | 59.2 | **(11.5)** | (9.5) |
| Other comprehensive income | | | | | |
| Exchange (losses)/gains on foreign currency translations | | **(40.2)** | 0.7 | **–** | – |
| Net fair value gains – cash flow hedges | | **0.4** | 4.1 | **–** | – |
| Actuarial (losses)/gains on retirement benefit obligation | 24 | **(6.8)** | 0.8 | **(1.5)** | 0.1 |
| Tax credit/(charge) on items taken directly to equity | 5 | **2.2** | (2.2) | **0.4** | – |
| **Other comprehensive (expense)/income net of taxation** | | **(44.4)** | 3.4 | **(1.1)** | 0.1 |
| **Total comprehensive income/(expense) for the year attributable to owners of the parent** | | **32.1** | 62.6 | **(12.6)** | (9.4) |

The accounting policies and notes 1 to 30 are an integral part of these Consolidated Financial Statements.

# Balance sheets
## as at 31 December

| | Notes | Group 2011 £m | Group 2010 £m | Company 2011 £m | Company 2010 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 11 | **3.6** | 6.8 | **–** | – |
| Investment in subsidiaries | 12 | **–** | – | **665.7** | 666.7 |
| Property, plant and equipment | 13 | **30.6** | 35.7 | **0.6** | – |
| Deferred tax assets | 14 | **50.1** | 48.5 | **1.5** | 0.3 |
| | | **84.3** | 91.0 | **667.8** | 667.0 |
| **Current assets** | | | | | |
| Amounts receivable from customers: | | | | | |
| – due within one year | | **555.3** | 558.8 | **–** | – |
| – due in more than one year | | **5.1** | 8.1 | **–** | – |
| | 15 | **560.4** | 566.9 | **–** | – |
| Derivative financial instruments | 21 | **10.0** | – | **–** | – |
| Cash and cash equivalents | 16 | **17.9** | 23.5 | **–** | 0.8 |
| Current tax asset | | **–** | – | **4.2** | 3.4 |
| Other receivables | 17 | **19.1** | 21.3 | **271.1** | 275.4 |
| | | **607.4** | 611.7 | **275.3** | 279.6 |
| **Total assets** | | **691.7** | 702.7 | **943.1** | 946.6 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | 19 | **(6.4)** | (19.5) | **(3.1)** | (10.1) |
| Derivative financial instruments | 21 | **(0.3)** | (4.5) | **–** | – |
| Trade and other payables | 18 | **(57.4)** | (55.9) | **(169.4)** | (134.1) |
| Current tax liabilities | | **(25.8)** | (25.7) | **–** | – |
| | | **(89.9)** | (105.6) | **(172.5)** | (144.2) |
| **Non-current liabilities** | | | | | |
| Retirement benefit obligation | 24 | **(4.0)** | (3.3) | **(0.8)** | (0.8) |
| Borrowings | 19 | **(270.1)** | (284.8) | **(212.5)** | (215.4) |
| | | **(274.1)** | (288.1) | **(213.3)** | (216.2) |
| **Total liabilities** | | **(364.0)** | (393.7) | **(385.8)** | (360.4) |
| **Net assets** | | **327.7** | 309.0 | **557.3** | 586.2 |
| **Equity attributable to owners of the parent** | | | | | |
| Ordinary shares | 26 | **25.7** | 25.7 | **25.7** | 25.7 |
| Other reserve | | **(22.5)** | (22.5) | **226.3** | 226.3 |
| Foreign exchange reserve | | **2.0** | 42.2 | **–** | – |
| Hedging reserve | | **(1.8)** | (2.7) | **–** | – |
| Shares held by employee trust | | **(5.7)** | (5.7) | **(5.7)** | (5.7) |
| Retained earnings | | **330.0** | 272.0 | **311.0** | 339.9 |
| **Total equity** | | **327.7** | 309.0 | **557.3** | 586.2 |

The accounting policies and notes 1 to 30 are an integral part of these Consolidated Financial Statements.

The Financial Statements 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 30 were approved by the Board on 29 February 2012 and were signed on its behalf by:

**John Harnett**
Chief Executive Officer

**David Broadbent**
Finance Director

Financial Statements

# Statements of changes in equity

| Group – Attributable to owners of the parent | Called-up share capital £m | Other reserve £m | Foreign exchange reserve £m | Hedging reserve £m | Shares held by employee trust £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 25.7 | (22.5) | 41.5 | (5.0) | (5.7) | 225.8 | 259.8 |
| Comprehensive income | | | | | | | |
| Profit after taxation for the year | – | – | – | – | – | 59.2 | 59.2 |
| Other comprehensive income | | | | | | | |
| Exchange gains on foreign currency translation | – | – | 0.7 | – | – | – | 0.7 |
| Net fair value gains – cash flow hedges | – | – | – | 4.1 | – | – | 4.1 |
| Actuarial gains on retirement benefit obligation | – | – | – | – | – | 0.8 | 0.8 |
| Tax charge on items taken to equity | – | – | – | (1.8) | – | (0.4) | (2.2) |
| Total other comprehensive income | – | – | 0.7 | 2.3 | – | 0.4 | 3.4 |
| Total comprehensive income for the year | – | – | 0.7 | 2.3 | – | 59.6 | 62.6 |
| Transactions with owners | | | | | | | |
| Share-based payment adjustment to reserves | – | – | – | – | – | 1.7 | 1.7 |
| Dividends paid to Company shareholders | – | – | – | – | – | (15.1) | (15.1) |
| At 31 December 2010 | 25.7 | (22.5) | 42.2 | (2.7) | (5.7) | 272.0 | 309.0 |
| **At 1 January 2011** | **25.7** | **(22.5)** | **42.2** | **(2.7)** | **(5.7)** | **272.0** | **309.0** |
| Comprehensive income | | | | | | | |
| Profit after taxation for the year | **–** | **–** | **–** | **–** | **–** | **76.5** | **76.5** |
| Other comprehensive income | | | | | | | |
| Exchange losses on foreign currency translation | **–** | **–** | **(40.2)** | **–** | **–** | **–** | **(40.2)** |
| Net fair value gains – cash flow hedges | **–** | **–** | **–** | **0.4** | **–** | **–** | **0.4** |
| Actuarial losses on retirement benefit obligation | **–** | **–** | **–** | **–** | **–** | **(6.8)** | **(6.8)** |
| Tax credit on items taken to equity | **–** | **–** | **–** | **0.5** | **–** | **1.7** | **2.2** |
| Total other comprehensive (expense)/income | **–** | **–** | **(40.2)** | **0.9** | **–** | **(5.1)** | **(44.4)** |
| Total comprehensive (expense)/income for the year | **–** | **–** | **(40.2)** | **0.9** | **–** | **71.4** | **32.1** |
| Transactions with owners | | | | | | | |
| Share-based payment adjustment to reserves | **–** | **–** | **–** | **–** | **–** | **3.7** | **3.7** |
| Dividends paid to Company shareholders | **–** | **–** | **–** | **–** | **–** | **(17.1)** | **(17.1)** |
| **At 31 December 2011** | **25.7** | **(22.5)** | **2.0** | **(1.8)** | **(5.7)** | **330.0** | **327.7** |

# Statements of changes in equity continued

| Company – Attributable to owners of the parent | Called-up share capital £m | Other reserve £m | Hedging reserve £m | Shares held by employee trust £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 January 2010 | 25.7 | 226.3 | 0.1 | (5.7) | 362.7 | 609.1 |
| Comprehensive income | | | | | | |
| Loss after taxation for the year | – | – | – | – | (9.5) | (9.5) |
| Other comprehensive income | | | | | | |
| Actuarial gains on retirement benefit obligation | – | – | – | – | 0.1 | 0.1 |
| Tax charge on items taken to equity | – | – | (0.1) | – | – | (0.1) |
| Total other comprehensive (expense)/income | – | – | (0.1) | – | 0.1 | – |
| Total comprehensive expense for the year | – | – | (0.1) | – | (9.4) | (9.5) |
| Transactions with owners | | | | | | |
| Share-based payment adjustment to reserves | – | – | – | – | 1.7 | 1.7 |
| Dividends paid to Company shareholders | – | – | – | – | (15.1) | (15.1) |
| At 31 December 2010 | 25.7 | 226.3 | – | (5.7) | 339.9 | 586.2 |
| **At 1 January 2011** | **25.7** | **226.3** | **–** | **(5.7)** | **339.9** | **586.2** |
| Comprehensive income | | | | | | |
| Loss after taxation for the year | **–** | **–** | **–** | **–** | **(11.5)** | **(11.5)** |
| Other comprehensive income | | | | | | |
| Actuarial losses on retirement benefit obligation | **–** | **–** | **–** | **–** | **(1.5)** | **(1.5)** |
| Tax credit on items taken to equity | **–** | **–** | **–** | **–** | **0.4** | **0.4** |
| Total other comprehensive expense | **–** | **–** | **–** | **–** | **(1.1)** | **(1.1)** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **–** | **(12.6)** | **(12.6)** |
| Transactions with owners | | | | | | |
| Share-based payment adjustment to reserves | **–** | **–** | **–** | **–** | **0.8** | **0.8** |
| Dividends paid to Company shareholders | **–** | **–** | **–** | **–** | **(17.1)** | **(17.1)** |
| **At 31 December 2011** | **25.7** | **226.3** | **–** | **(5.7)** | **311.0** | **557.3** |

The other reserve represents the difference between the nominal value of the shares issued when the Company became listed on 16 July 2007 and the fair value of the subsidiary companies acquired in exchange for this share capital.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company income statement. The loss after taxation of the Parent Company for the period was £11.5m (2010: loss of £9.5m).

The accounting policies and notes 1 to 30 are an integral part of these Consolidated Financial Statements.

# Cash flow statements

## for the year ended 31 December

| | Notes | Group 2011 £m | Group 2010 £m | Company 2011 £m | Company 2010 £m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 27 | **82.7** | 97.3 | **31.2** | 97.1 |
| Established businesses | | **78.1** | 93.8 | **31.2** | 97.1 |
| Start-up businesses | | **4.6** | 3.5 | **–** | – |
| | | **82.7** | 97.3 | **31.2** | 97.1 |
| Finance costs paid | | **(42.9)** | (35.7) | **(30.5)** | (10.1) |
| Finance income received | | **–** | – | **28.1** | 18.4 |
| Income tax paid | | **(27.9)** | (22.6) | **(1.8)** | – |
| Net cash generated from operating activities | | **11.9** | 39.0 | **27.0** | 105.4 |
| **Cash flows from investing activities** | | | | | |
| Purchases of property, plant and equipment | 13 | **(13.8)** | (10.6) | **(0.8)** | – |
| Proceeds from sale of property, plant and equipment | | **2.7** | 2.9 | **–** | – |
| Purchases of intangible assets | 11 | **(0.5)** | (0.5) | **–** | – |
| Net cash used in investing activities | | **(11.6)** | (8.2) | **(0.8)** | – |
| **Net cash from operating and investing activities** | | | | | |
| Established businesses | | **12.4** | 42.5 | **26.2** | 105.4 |
| Start-up businesses | | **(12.1)** | (11.7) | **–** | – |
| | | **0.3** | 30.8 | **26.2** | 105.4 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **38.2** | 275.6 | **10.1** | 2.1 |
| Repayment of borrowings | | **(25.0)** | (298.5) | **(20.0)** | (92.1) |
| Dividends paid to Company shareholders | 7 | **(17.1)** | (15.1) | **(17.1)** | (15.1) |
| Net cash used in financing activities | | **(3.9)** | (38.0) | **(27.0)** | (105.1) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(3.6)** | (7.2) | **(0.8)** | 0.3 |
| Cash and cash equivalents at beginning of year | | **23.5** | 31.2 | **0.8** | 0.5 |
| Exchange losses on cash and cash equivalents | | **(2.0)** | (0.5) | **–** | – |
| **Cash and cash equivalents at end of year** | 16 | **17.9** | 23.5 | **–** | 0.8 |

| | Notes | Group 2011 £m | Group 2010 £m | Company 2011 £m | Company 2010 £m |
|---|---|---|---|---|---|
| Cash and cash equivalents at end of year comprise: | | | | | |
| Cash at bank and in hand | 16 | **17.9** | 23.5 | **–** | 0.8 |

The accounting policies and notes 1 to 30 are an integral part of these Consolidated Financial Statements.

# Accounting policies

## Basis of preparation

The Consolidated Group and Parent Company Financial Statements of International Personal Finance plc and its subsidiaries ('IPF' or the 'Group') have been prepared in accordance with European Union endorsed International Financial Reporting Standards ('IFRSs'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011 but do not have any impact on the Group:

- Amendment to IFRS 1 (January 2010), 'Limited exemption from comparative IFRS 7 disclosures for first-time adopters';
- International Accounting Standards ('IAS') 24 (revised November 2009) 'Related party disclosures';
- Amendment to IAS 32 (October 2009) 'Classification of rights issues';
- Improvements to IFRSs 2010 (May 2010);
- Amendments to IFRIC 14 (November 2009) 'Prepayments of a minimum funding requirement'; and
- IFRIC 19 'Extinguishing financial liabilities with equity instruments'.

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

- IFRS 7 (amendment) 'Disclosures – offsetting financial assets and financial liabilities';
- IFRS 7 (amendment) 'Disclosures – transfers of financial assets';
- IFRS 9 'Financial instruments'. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2015 and has not yet been endorsed by the European Union, however, is available for early adoption. The Group is in the process of assessing IFRS 9's full impact;
- IFRS 10 'Consolidated Financial Statements';
- IFRS 13 'Fair value measurements';
- IAS 1 (amendment) 'Presentation of items of other comprehensive income';
- IAS 12 (amendment) 'Deferred tax: recovery of underlying assets';
- IAS 19 (revised) 'Employee benefits';
- IAS 27 (revised) 'Separate Financial Statements'; and
- IAS 32 (amendment) 'Offsetting financial assets and financial liabilities'.

## Accounting convention

The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value. The principal accounting policies, which have been applied consistently, are set out in the following paragraphs.

## Going concern

The directors have, at the time of approving the Financial Statements, a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in the Financial Statements. Further detail is contained in the directors' statement on page 37.

## Consolidation

These Consolidated Financial Statements include the financial results of all companies which are controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. All companies are 100% owned by IPF plc Group companies. A list of the principal subsidiaries in the Group is included in note 12.

## Finance costs

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

## Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board. This information is geographical. A geographical segment 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.

# Accounting policies continued

## 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 EIR. The EIR is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers paying early but excluding the anticipated impact of customers paying late or not paying at all.

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

The accounting for amounts receivable from customers is considered further below.

## Leases

The leases entered into by the Group are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the Group.

## Other operating costs

Other operating costs include agent 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, determined using a Monte Carlo simulation option pricing model or binomial option pricing model depending on the type of award.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

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

## Exceptional items

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

## Financial instruments

### Amounts receivable from customers

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

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

The unwinding of the discounted value used to compute the impairment is reflected in the interest charged on the impaired loan. Impairment charges in respect of customer receivables are charged to the income statement.

## Cash and cash equivalents

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

### Derivative financial instruments

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

All derivative financial instruments are assessed against the hedge accounting criteria set out in IAS 39. The majority of the Group's derivatives are cash flow hedges of highly probable forecast transactions and meet the hedge accounting requirements of IAS 39. The Group also uses some foreign currency contracts which do not qualify for hedge accounting as they do not hedge a specific future transaction. These contracts are used to reduce the impact of exchange rate fluctuations on the reported results. Derivatives are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently remeasured 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 subsequently stated 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.

### 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. All intangible assets are internally generated.

Computer software is amortised (within administrative expenses) on a straight-line basis over its estimated useful economic life which is generally estimated to be five years. The residual values and economic lives are reviewed by management at each balance sheet date.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost, where cost is equal to the fair value of the consideration used to acquire the asset. Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the investment carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

### Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

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

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

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

# Accounting policies continued

### Share capital
IPF plc has only ordinary share capital. These shares, with a nominal value of 10 pence per share, are classified as equity.

### Shares held by employee trust
The net amount paid by the employee trust 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 a subsidiary'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 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.

On 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. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### Taxation
The tax expense represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from profit before taxation 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.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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 is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### Employee benefits
#### Defined benefit pension plan
The charge or credit in the income statement in respect of the defined benefit pension plan comprises the actuarially assessed current service cost of working employees together with the interest charge on pension liabilities offset by the expected return on pension scheme assets. All charges or credits are allocated to administrative expenses.

The asset or obligation recognised in the balance sheet in respect of the defined benefit pension plan is the fair value of the plan'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 the statement of comprehensive income.

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

The Parent Company share of the defined benefit retirement obligation is based on the proportion of total Group contributions made by the Parent Company.

### Defined contribution plans

Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

## Key assumptions and estimates

In applying the accounting policies set out above, the Group makes significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

### Amounts receivable from customers

The Group reviews its portfolio of customer loans and receivables for impairment every week. The Group makes judgements to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows.

For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable predictor of future payment performance. The level of impairment is calculated using actuarial models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage of each product. The impairment models are reviewed regularly to take account of the current economic environment and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, an adjustment to the carrying value of amounts receivable from customers may be required. To the extent that the net present value of estimated cash flows differs by +/– 5%, it is estimated that amounts receivable from customers would be £28.0m higher/lower (2010: £28.3m).

### Retirement benefit asset or obligation

A number of judgements and estimates are made in assessing the amount of the retirement benefit asset or obligation at each balance sheet date, the key ones being discount rate, mortality rates, investment returns, salary inflation and rate of pension increases. These judgements and estimates are derived after taking into account the requirements of IAS 19 'Retirement benefit obligations' and after taking the advice of the Group's actuaries.

Further details on the key assumptions used are set out in note 24.

### Tax

The Group is subject to tax in a number of international jurisdictions as well as the UK. In some cases, due to the unusual features of home credit, the tax treatment of certain items cannot be determined with certainty until the operation has been subject to a tax audit. In some instances, this can be some years after the item has first been reflected in the Financial Statements. The Group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of whether such liabilities are likely to fall due. If the outcome of such audits is that the final liability is different to the amount originally estimated, such differences will be recognised in the period in which the audit or enquiry is determined. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

# Notes to the Financial Statements

## 1. Segment analysis

### Geographical segments

| Group | Revenue 2011 £m | Revenue 2010 £m | Impairment 2011 £m | Impairment 2010 £m | Profit before taxation 2011 £m | Profit before taxation 2010 £m |
|---|---|---|---|---|---|---|
| Poland | **273.2** | 245.3 | **83.2** | 75.1 | **66.0** | 49.0 |
| Czech-Slovakia | **144.8** | 137.7 | **30.2** | 27.3 | **37.8** | 41.7 |
| Hungary | **74.2** | 74.0 | **9.0** | 11.3 | **8.3** | 9.1 |
| UK – central costs* | **–** | – | **–** | – | **(17.2)** | (12.9) |
| Established businesses | **492.2** | 457.0 | **122.4** | 113.7 | **94.9** | 86.9 |
| Mexico | **102.9** | 101.2 | **31.1** | 36.9 | **1.5** | 3.5 |
| Romania | **54.4** | 50.5 | **14.2** | 17.5 | **4.1** | 1.7 |
| Total – pre-exceptional items | **649.5** | 608.7 | **167.7** | 168.1 | **100.5** | 92.1 |
| Exceptional items | **–** | – | **–** | – | **–** | (3.9) |
| **Total** | **649.5** | 608.7 | **167.7** | 168.1 | **100.5** | 88.2 |

| Group | Segment assets 2011 £m | Segment assets 2010 £m | Segment liabilities 2011 £m | Segment liabilities 2010 £m |
|---|---|---|---|---|
| Poland | **247.4** | 269.1 | **86.5** | 141.6 |
| Czech-Slovakia | **172.8** | 169.3 | **58.3** | 62.6 |
| Hungary | **87.2** | 87.4 | **49.0** | 59.3 |
| UK | **32.8** | 28.6 | **86.1** | 46.7 |
| Mexico | **92.7** | 92.1 | **54.6** | 54.3 |
| Romania | **58.8** | 56.2 | **29.5** | 29.2 |
| **Total** | **691.7** | 702.7 | **364.0** | 393.7 |

| Group | Capital expenditure 2011 £m | Capital expenditure 2010 £m | Depreciation 2011 £m | Depreciation 2010 £m |
|---|---|---|---|---|
| Poland | **0.9** | 0.7 | **2.5** | 3.5 |
| Czech-Slovakia | **3.1** | 2.2 | **3.7** | 2.3 |
| Hungary | **0.5** | 0.9 | **1.7** | 2.0 |
| UK | **7.2** | 4.9 | **1.7** | 2.1 |
| Mexico | **1.5** | 1.6 | **0.8** | 0.8 |
| Romania | **0.6** | 0.3 | **0.7** | 0.7 |
| **Total** | **13.8** | 10.6 | **11.1** | 11.4 |

*Although the UK central 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.

All revenue comprises amounts earned on amounts receivable from customers.

The Group is domiciled in the UK, no revenue is generated in the UK. Total revenue from external customers is £649.5m (2010: £608.7m) and the breakdown by geographical area is disclosed above.

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is £17.0m (2010: £17.8m), and the total of non-current assets located in other countries is £17.2m (2010: £24.7m).

There is no single external customer from which significant revenue is generated.

Expenditure on intangible assets of £0.5m (2010: £0.5m) and amortisation of £3.7m (2010: £5.1m) all relates to the UK.

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. The Board considers the business from a geographic perspective.

## 2. Finance costs

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Interest payable on borrowings | **42.9** | 40.7 |

Finance costs in 2010 included £6.8m of exceptional financing costs (see note 10).

## 3. Profit before taxation

Profit before taxation is stated after charging/(crediting):

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Depreciation of property, plant and equipment (note 13) | **11.1** | 11.4 |
| Loss/(profit) on disposal of property, plant and equipment | **3.0** | (0.3) |
| Amortisation of intangible assets (note 11) | **3.7** | 5.1 |
| Operating lease rentals: | | |
| – property | **13.8** | 13.8 |
| – equipment | **5.7** | 1.9 |
| Employee costs (note 9) | **145.0** | 132.4 |

Included within loss/(profit) on disposal of property, plant and equipment is a write-down in the carrying value of £3.2m in relation to handheld technology.

## 4. Auditor's remuneration

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

| Group | 2011 £m | 2010 £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 | **0.3** | 0.3 |
| – tax services | **–** | 0.1 |
| – other services | **–** | 0.3 |

Included within other services in 2010, is £0.2m of non-recurring refinancing costs.

Further details on current and predecessor auditor remuneration can be found in the corporate governance statement on page 48.

## 5. Tax expense

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Total current tax | **29.6** | 32.5 |
| Total deferred tax (note 14) | **(5.6)** | (3.5) |
| **Tax expense** | **24.0** | 29.0 |

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Tax (credit)/charge on items taken directly to equity | | |
| Deferred tax (credit)/charge on net fair value gains – cash flow hedges | **(0.3)** | 1.8 |
| Deferred tax (credit)/charge on actuarial (losses)/gains on retirement benefit obligation | **(1.7)** | 0.4 |
| Current tax credit on net fair value gains – cash flow hedges | **(0.2)** | – |
| | **(2.2)** | 2.2 |

# Notes to the Financial Statements continued

## 5. Tax expense continued

The rate of tax expense on the profit before taxation for the year ended 31 December 2011 is lower than (2010: higher than) the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). The differences are explained as follows:

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Profit before taxation | **100.5** | 88.2 |
| Profit before taxation multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%) | **26.6** | 24.7 |
| Effects of: | | |
| – adjustment in respect of prior years | **(0.7)** | (2.8) |
| – adjustment in respect of foreign tax rates | **(4.2)** | (3.2) |
| – expenses not deductible for tax purposes | **5.9** | 5.9 |
| – impact of rate change on deferred tax asset | **(3.6)** | 4.4 |
| **Total tax expense** | **24.0** | 29.0 |

## 6. Earnings per share

Basic earnings per share ('EPS') from continuing operations is calculated by dividing the earnings attributable to shareholders of £76.5m (2010: £59.2m) by the weighted average number of shares in issue during the period of 253.6 million (2010: 253.6 million) which has been adjusted to exclude the weighted average number of shares held 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 | 2011 m | 2010 m |
|---|---|---|
| Used in basic EPS calculation | **253.6** | 253.6 |
| Dilutive effect of awards | **5.1** | 2.8 |
| **Used in diluted EPS calculation** | **258.7** | 256.4 |

Basic and diluted EPS are presented below:

| Group | 2011 pence | 2010 pence |
|---|---|---|
| Basic EPS | **30.17** | 23.34 |
| Dilutive effect of awards | **(0.60)** | (0.25) |
| **Diluted EPS** | **29.57** | 23.09 |

## 7. Dividends

| Group and Company | 2011 £m | 2010 £m |
|---|---|---|
| Interim dividend of 3.00 pence per share (2010: 2.53 pence per share) | **7.6** | 6.5 |
| Final 2010 dividend of 3.74 pence per share (2010: final 2009 dividend of 3.40 pence per share) | **9.5** | 8.6 |
| | **17.1** | 15.1 |

The directors are recommending a final dividend in respect of the financial year ended 31 December 2011 of 4.1 pence per share which will amount to a full year dividend payment of £18.0m. If approved by the shareholders at the annual general meeting ('AGM'), this dividend will be paid on 1 June 2012 to shareholders who are on the register of members at 20 April 2012. This dividend is not reflected as a liability in the balance sheet as at 31 December 2011 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 specified in the Our Senior Management Group section of this Annual Report and Financial Statements.

| | **2011 £m** | 2010 £m |
|---|---|---|
| Short-term employee benefits | **5.6** | 5.1 |
| Post-employment benefits | **0.3** | 0.3 |
| Share-based payments | **0.8** | 1.0 |
| | **6.7** | 6.4 |

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year.

Post-employment benefits represent the sum of (i) the increase in the transfer value of the accrued pension benefits (less contributions); (ii) Group contributions into personal pension arrangements; and (iii) contributions into the Group's stakeholder scheme.

Disclosures in respect of the Group's directors are included in the Directors' Remuneration Report.

## 9. Employee information

The average number of persons employed by the Group (including directors) was as follows:

| Group | **2011 Number** | 2010 Number |
|---|---|---|
| Full-time* | **5,899** | 5,592 |
| Part-time** | **3,257** | 3,158 |
| | **9,156** | 8,750 |

*Includes 86 agents in Hungary (2010: 80).
**Includes 2,729 agents in Hungary (2010: 2,537).

Agents are typically self employed other than in Hungary where they are required by legislation to be employed.

The average number of employees by category was as follows:

| Group | **2011 Number** | 2010 Number |
|---|---|---|
| Operations | **5,719** | 5,358 |
| Administration | **1,036** | 1,048 |
| Head office and security | **2,401** | 2,344 |
| | **9,156** | 8,750 |

Group employment costs – all employees (including directors):

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Gross wages and salaries | **117.8** | 108.0 |
| Social security costs | **24.4** | 21.9 |
| Pension charge – defined benefit schemes (note 24) | **–** | 0.1 |
| – defined contribution schemes | **0.9** | 0.7 |
| Share-based payment charge (note 25) | **1.9** | 1.7 |
| **Total** | **145.0** | 132.4 |

# Notes to the Financial Statements continued

## 10. Exceptional items

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Exceptional financing costs | – | 6.8 |
| Pension curtailment gain | – | (2.9) |
| Pre-tax exceptional charge | – | 3.9 |
| Tax | – | (0.8) |
| **Post-tax exceptional charge** | **–** | 3.1 |

Profit before taxation in 2010 included an exceptional charge of £3.9m comprising exceptional financing costs totalling £6.8m partially offset by a curtailment gain of £2.9m arising on the closure of the Group's defined benefit pension scheme to future accrual. The exceptional financing costs primarily represent the cost of closing out interest rate swaps upon refinancing (£5.3m), the remainder (£1.5m) relates to unamortised arrangement fees and other funding costs.

## 11. Intangible assets

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Net book amount | | |
| At 1 January | **6.8** | 11.4 |
| Additions | **0.5** | 0.5 |
| Amortisation | **(3.7)** | (5.1) |
| **At 31 December** | **3.6** | 6.8 |
| Analysed as: | | |
| – cost | **25.2** | 24.7 |
| – amortisation | **(21.6)** | (17.9) |
| **At 31 December** | **3.6** | 6.8 |

Intangible assets comprise computer software.

The Company has no intangible assets.

## 12. Investment in subsidiaries

| Company | **2011 £m** | 2010 £m |
|---|---|---|
| Investment in subsidiary | **663.6** | 663.6 |
| Share-based payment adjustment | **2.1** | 3.1 |
| | **665.7** | 666.7 |

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 £663.6m and this amount was therefore capitalised as a cost of investment. £2.1m (2010: £3.1m) 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.

The principal subsidiary companies of IPF plc, which are 100% owned by the Group, are detailed below:

| Subsidiary company | Country of incorporation and operation | Principal activity |
|---|---|---|
| IPF Holdings Limited | England | Holding company |
| International Personal Finance Investments Limited | England | Holding company |
| IPF International Limited | England | Provision of services |
| IPF Financing Limited | England | Provision of services |
| Provident Polska S.A. | Poland | Home credit |
| IPF Investments Polska Sp. z o.o. | Poland | Provision of services |
| Provident Financial s.r.o. | Czech Republic | Home credit |
| Provident Financial s.r.o. | Slovakia | Home credit |
| Provident Financial Zrt. | Hungary | Home credit |
| Provident Mexico S.A. de C.V. | Mexico | Home credit |
| Provident Servicios de Agencia S.A. de C.V. | Mexico | Provision of services |
| Provident Servicios S.A. de C.V. | Mexico | Provision of services |
| Provident Financial Romania IFN S.A. | Romania | Home credit |

A full list of subsidiaries will be annexed to the next annual return of the Company to be filed with the Registrar of Companies.

# Notes to the Financial Statements continued

## 13. Property, plant and equipment

### Equipment and vehicles, fixtures and fittings

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| **Cost** | | | | |
| At 1 January | **87.2** | 87.1 | **–** | – |
| Exchange adjustments | **(6.7)** | (0.5) | **–** | – |
| Additions | **13.8** | 10.6 | **0.8** | – |
| Disposals | **(15.6)** | (10.0) | **–** | – |
| **At 31 December** | **78.7** | 87.2 | **0.8** | – |
| **Depreciation** | | | | |
| At 1 January | **51.5** | 47.6 | **–** | – |
| Exchange adjustments | **(4.7)** | (0.1) | **–** | – |
| Charge to the income statement | **11.1** | 11.4 | **0.2** | – |
| Disposals | **(9.8)** | (7.4) | **–** | – |
| **At 31 December** | **48.1** | 51.5 | **0.2** | – |
| **Net book value at 31 December** | **30.6** | 35.7 | **0.6** | – |

Included within disposals is a write-down in carrying value of £3.2m in relation to handheld technology.

## 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 | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| At 1 January | **48.5** | 46.5 | **0.3** | 1.0 |
| Exchange differences | **(6.0)** | 0.7 | **–** | – |
| Credit/(charge) to the income statement | **5.6** | 3.5 | **0.8** | (0.6) |
| Tax credit/(charge) on items taken directly to equity | **2.0** | (2.2) | **0.4** | (0.1) |
| **At 31 December** | **50.1** | 48.5 | **1.5** | 0.3 |

## 14. Deferred tax continued

An analysis of the deferred tax balance is set out below:

| | Group | | | | Company | | |
|---|---|---|---|---|---|---|---|
| | Losses £m | Retirement benefit obligations £m | Other temporary differences £m | Total £m | Retirement benefit obligations £m | Other temporary differences £m | Total £m |
| At 1 January 2010 | 7.5 | 2.3 | 36.7 | 46.5 | 0.5 | 0.5 | 1.0 |
| Exchange differences | (0.3) | – | 1.0 | 0.7 | – | – | – |
| (Charge)/credit to the income statement | (0.6) | (1.0) | 5.1 | 3.5 | (0.2) | (0.4) | (0.6) |
| Tax charge on items taken directly to equity | – | (0.4) | (1.8) | (2.2) | (0.1) | – | (0.1) |
| At 31 December 2010 | 6.6 | 0.9 | 41.0 | 48.5 | 0.2 | 0.1 | 0.3 |
| **At 1 January 2011** | **6.6** | **0.9** | **41.0** | **48.5** | **0.2** | **0.1** | **0.3** |
| Exchange differences | **(1.2)** | **–** | **(4.8)** | **(6.0)** | **–** | **–** | **–** |
| Credit/(charge) to the income statement | **3.7** | **(1.6)** | **3.5** | **5.6** | **(0.4)** | **1.2** | **0.8** |
| Tax credit on items taken directly to equity | **–** | **1.7** | **0.3** | **2.0** | **0.4** | **–** | **0.4** |
| **At 31 December 2011** | **9.1** | **1.0** | **40.0** | **50.1** | **0.2** | **1.3** | **1.5** |

Deferred tax assets have been recognised in respect of tax losses and other temporary timing differences (principally relating to revenue recognition) to the extent that it is probable that these assets will be utilised against future taxable profits.

Deferred tax has not been provided on unremitted earnings of the Group's overseas subsidiaries as it is considered that any future distribution will fall within the UK's foreign profits exemption, and hence no exposure to UK tax is expected to arise.

## 15. Amounts receivable from customers

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Amounts receivable from customers comprise: | | |
| – amounts due within one year | **555.3** | 558.8 |
| – amounts due in more than one year | **5.1** | 8.1 |
| | **560.4** | 566.9 |

All lending is in the local currency of the country in which the loan is issued. The currency profile of amounts receivable from customers is as follows:

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Polish zloty | **222.3** | 237.6 |
| Czech crown | **106.8** | 107.6 |
| Euro (Slovakia) | **43.9** | 37.8 |
| Hungarian forint | **68.1** | 69.4 |
| Central European currencies | **441.1** | 452.4 |
| Mexican peso | **66.2** | 67.5 |
| Romanian leu | **53.1** | 47.0 |
| | **560.4** | 566.9 |

# Notes to the Financial Statements continued

## 15. Amounts receivable from customers continued

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the average effective interest rate ('EIR') of 132% (2010: 132%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 4.9 months (2010: 5.0 months).

The Group has one class of loan receivable and no collateral is held in respect of any customer receivables. The Group does not use an impairment provision account for recording impairment losses and therefore no analysis of gross customer receivables less provision for impairment is presented.

Revenue recognised on amounts receivable from customers which have been impaired was £378.0m (2010: £376.1m).

The Company has no amounts receivable from customers.

## 16. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Cash at bank and in hand | **17.9** | 23.5 | **–** | 0.8 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Sterling | **0.1** | 1.4 | **–** | 0.6 |
| Polish zloty | **6.1** | 6.6 | **–** | 0.2 |
| Czech crown | **2.8** | 2.9 | **–** | – |
| Euro (Slovakia) | **0.9** | 0.8 | **–** | – |
| Hungarian forint | **1.9** | 3.7 | **–** | – |
| Mexican peso | **3.0** | 4.0 | **–** | – |
| Romanian leu | **3.1** | 4.1 | **–** | – |
| **Total** | **17.9** | 23.5 | **–** | 0.8 |

## 17. Other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Other receivables | **4.6** | 7.0 | **–** | 0.2 |
| Prepayments | **14.5** | 14.3 | **6.2** | 6.0 |
| Amounts due from Group undertakings | **–** | – | **264.9** | 269.2 |
| **Total** | **19.1** | 21.3 | **271.1** | 275.4 |

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 | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Trade payables | **3.2** | 1.7 | **0.2** | 0.5 |
| Other payables including taxation and social security | **14.8** | 15.8 | **0.1** | 0.2 |
| Accruals | **39.4** | 38.4 | **16.5** | 15.3 |
| Amounts due to Group undertakings | **–** | – | **152.6** | 118.1 |
| **Total** | **57.4** | 55.9 | **169.4** | 134.1 |

Amounts due to Group undertakings are unsecured and due for repayment in less than one year.

## 19. Borrowing facilities and borrowings

External borrowings comprise the €225m (£187.5m) Euro Medium Term Notes ('EMTN') bonds maturing 2015; the Romanian lei 36.5m (£7.0m) EMTN bonds maturing 2014; the Polish zloty 200m (£37.4m) bonds maturing 2015; and borrowings under committed revolving credit bank facilities and overdraft facilities. Committed facilities have maturities up to 2014 and borrowings under uncommitted overdraft facilities are repayable on demand. At 31 December 2011, borrowings under the bond and bank facilities amounted to £276.5m (2010: £304.3m). All borrowings are unsecured.

The Group's and Company's external borrowings are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Borrowings | | | | |
| Bank borrowings | **44.6** | 67.8 | **21.1** | 32.4 |
| Bonds | **231.9** | 236.5 | **194.5** | 193.1 |
| **Total** | **276.5** | 304.3 | **215.6** | 225.5 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Borrowings | | | | |
| Repayable: | | | | |
| – in less than one year | **6.4** | 19.5 | **3.1** | 10.1 |
| – between one and two years | **40.6** | – | **18.0** | – |
| – between two and five years | **229.5** | 284.8 | **194.5** | 215.4 |
| **Total** | **276.5** | 304.3 | **215.6** | 225.5 |

The average period to maturity of the Group's external bonds and committed external borrowing facilities was 2.8 years (2010: 3.5 years).

# Notes to the Financial Statements continued

## 19. Borrowing facilities and borrowings continued

The currency exposure on external borrowings is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Sterling | **21.1** | – | **21.1** | – |
| Polish zloty | **40.1** | 76.0 | **–** | 19.3 |
| Czech crown | **2.3** | 4.0 | **–** | 2.9 |
| Euro | **194.7** | 196.0 | **187.5** | 193.2 |
| Hungarian forint | **1.7** | 5.1 | **–** | – |
| Mexican peso | **9.7** | 8.0 | **–** | – |
| Romanian leu | **6.9** | 15.2 | **7.0** | 10.1 |
| **Total** | **276.5** | 304.3 | **215.6** | 225.5 |

The €225m (£187.5m) EMTN bonds are fixed rate bonds at a coupon of 11.5% until maturity in 2015. The Romanian lei 36.5m (£7.0m) EMTN bonds are fixed rate bonds at a coupon of 12.0% until maturity in 2014. The Polish zloty 200m (£37.4m) bonds are floating rate bonds, although derivative contracts have been used to fix borrowing costs for a period of 15 months up to March 2013. All of the external bank borrowings of the Group are at floating rates.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| **Bond and bank facilities available** | | | | |
| Repayable: | | | | |
| – on demand | **11.0** | 9.8 | **5.0** | 5.0 |
| – in less than one year | **6.2** | 35.0 | **–** | 10.0 |
| – between one and two years | **178.9** | – | **85.6** | – |
| – between two and five years | **251.8** | 434.8 | **194.5** | 276.6 |
| **Total** | **447.9** | 479.6 | **285.1** | 291.6 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Expiring within one year | **10.8** | 25.3 | **1.9** | 4.9 |
| Expiring within one to two years | **138.3** | – | **67.6** | – |
| Expiring in more than two years | **22.3** | 150.0 | **–** | 61.2 |
| **Total** | **171.4** | 175.3 | **69.5** | 66.1 |

## 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, which is chaired by the Finance Director, is empowered to take decisions within that delegated authority. Treasury activities and compliance with the treasury policies are reported to the Board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding and liquidity risk; interest rate risk; currency risk; and counterparty risk. This is to ensure that the Group is properly funded; that interest rate and currency risk is managed within set limits; and that financial counterparties are of appropriate credit quality. Policies also set out the specific instruments that can be used for risk management.

The treasury function enters into derivative transactions, principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options.

#### Liquidity risk

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The short-term nature of the Group's business means that the majority of amounts receivable from customers are receivable within 12 months with an average period to maturity of less than six 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 is sufficient committed debt facilities to cover forecast borrowings plus operational headroom plus appropriate stress-testing for the next 18 months on a rolling basis. Further, the aim is to ensure that there is a balanced refinancing profile with phased maturity dates; that there is diversification of debt funding sources; that there is no over-reliance on a single or small group of lenders; and that the debt facilities are sufficient for the currency requirements of each country. At 31 December 2011 the Group's bonds and committed borrowing facilities had an average period to maturity of 2.8 years (2010: 3.5 years). As shown in note 19 total undrawn facilities as at 31 December 2011 were £171.4m (2010: £175.3m).

A maturity analysis of the gross borrowing 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 | **2011 £m** | 2010 £m |
|---|---|---|
| Not later than six months | **5.0** | 23.3 |
| Later than six months and not later than one year | **33.5** | 27.6 |
| Later than one year and not later than two years | **70.0** | 33.0 |
| Later than two years and not later than five years | **285.1** | 376.5 |
| | **393.6** | 460.4 |

| Company | **2011 £m** | 2010 £m |
|---|---|---|
| Not later than six months | **1.2** | 11.5 |
| Later than six months and not later than one year | **25.5** | 23.1 |
| Later than one year and not later than two years | **42.3** | 24.1 |
| Later than two years and not later than five years | **238.5** | 283.6 |
| | **307.5** | 342.3 |

The above analysis 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 curves at the balance sheet date.

# Notes to the Financial Statements continued

## 20. Risks arising from financial instruments continued

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 | **2011 Outflow £m** | **2011 Inflow £m** | 2010 Outflow £m | 2010 Inflow £m |
|---|---|---|---|---|
| Not later than one month | **43.5** | **44.2** | 70.0 | 69.3 |
| Later than one month and not later than six months | **110.1** | **116.2** | 78.6 | 76.7 |
| Later than six months and not later than one year | **44.6** | **45.4** | 42.3 | 40.9 |
| Later than one year and not later than two years | **62.8** | **64.1** | 6.2 | 6.0 |
| Later than two years and not later than five years | **–** | **–** | – | – |
| | **261.0** | **269.9** | 197.1 | 192.9 |

| Company | **2011 Outflow £m** | **2011 Inflow £m** | 2010 Outflow £m | 2010 Inflow £m |
|---|---|---|---|---|
| Not later than one month | **0.8** | **0.7** | 0.5 | 0.5 |
| Later than one month and not later than six months | **1.5** | **1.5** | 1.3 | 1.2 |
| Later than six months and not later than one year | **0.9** | **0.9** | 0.7 | 0.7 |
| Later than one year and not later than two years | **–** | **–** | – | – |
| Later than two years and not later than five years | **–** | **–** | – | – |
| | **3.2** | **3.1** | 2.5 | 2.4 |

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 yield curves existing at the balance sheet date.

A maturity analysis of the Group's receivables and borrowing facilities as at 31 December is presented below:

| Group | Receivables £m | Percentage of total % | Borrowing facilities £m | Percentage of total % |
|---|---|---|---|---|
| 2010 | | | | |
| Less than one year | 558.8 | 98.6 | 44.8 | 9.3 |
| Later than one year | 8.1 | 1.4 | 434.8 | 90.7 |
| | 566.9 | 100.0 | 479.6 | 100.0 |
| **2011** | | | | |
| Less than one year | **555.3** | **99.1** | **17.2** | **3.8** |
| Later than one year | **5.1** | **0.9** | **430.7** | **96.2** |
| | **560.4** | **100.0** | **447.9** | **100.0** |

This demonstrates the short-term nature of the amounts receivable from customers which contrasts with the longer-term nature of the Group's committed funding facilities.

### Amounts receivable from customers

Risk management policies in respect of amounts receivable from customers are discussed in the credit risk section within this note.

## 20. Risks arising from financial instruments continued

### Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates in each of its countries of operation and therefore seeks to limit this net exposure. This is achieved by the use of techniques to fix interest costs, including fixed rate funding (predominantly longer-term bond funding); forward currency contracts used for non-functional currency funding; bank borrowing loan draw-down periods; and interest rate hedging instruments. These techniques are used to hedge the interest costs on a proportion of borrowings over a certain period of time, up to five years, although most hedging is for up to two years.

Interest costs are a relatively low proportion of the Group's revenue (6.6% in 2011; 5.6% in 2010) and therefore the risk of a material variance arising from a change in interest rates is low. If interest rates across all markets increased by 200 basis points this would have the following impact:

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Increase in fair value of derivatives taken to equity | **1.2** | – |
| Reduction in profit before tax | **0.4** | 1.0 |

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 profit and loss exposure.

#### Net asset exposure

The majority of the Group's net assets are denominated in currencies other than sterling. The consolidated 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 2011 is a reduction in net assets of £40.2m (2010: increase of £0.7m). 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.

#### Profit and loss exposure

As with net assets, the majority of the Group's profit is denominated in currencies other than sterling but translated into sterling for reporting purposes. The result for the period is translated into sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rates in the countries in which the Group operates will have a material impact on the consolidated result for the period. The Group reduces the exposure to this risk by economically hedging a proportion of budgeted profit which results in a currency variance in the trading result being partly offset by a gain or loss on the relevant foreign exchange contract.

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 | **2011 £m** | 2010 £m |
|---|---|---|
| Change in profit and loss reserves | **1.4** | – |
| Change in profit before tax | **1.5** | 0.1 |

## 20. Risks arising from financial instruments continued

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 (Slovakia), Hungarian forint, Mexican peso and Romanian leu); and
- there is no impact on the profit or loss reserve or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

### Counterparty risk

The Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks; and foreign currency and derivative financial instruments.

The Group only deposits cash, and only undertakes currency and derivative transactions, generally with highly rated banks and sets strict limits in respect of the amount of exposure to any one institution. Institutions with lower credit ratings can only be used with Board approval.

No collateral or credit enhancements are held in respect of any financial assets. The maximum exposure to counterparty risk is as follows:

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Cash and cash equivalents | **17.9** | 23.5 |
| Derivative financial assets | **10.0** | – |
| **Total** | **27.9** | 23.5 |

The above table 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, which are explained further in the principal risks section of this report, to ensure the risk of loss is minimised.

### Credit risk

The Group is subject to credit risk in respect of the 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 only lends to those customers who we believe can afford the repayments. The amount lent to each customer and the repayment period agreed are dependent upon the risk category the customer is assigned to as part of the scoring process. The level of expected future losses is generated on a weekly basis by geographical segment. These outputs are reviewed by management to ensure that appropriate action can be taken if results differ from management expectations.

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Amounts receivable from customers | **560.4** | 566.9 |

The above table represents a worst case scenario of the credit risk that the Group is exposed to at the year end. An analysis of the amounts receivable from customers by geographical segment is presented in note 15.

Amounts receivable from customers are stated at amortised cost and calculated in accordance with the Group's accounting policies. Those amounts receivable from customers that are neither past due nor impaired represent loans where no customer payments have been missed and there is, therefore, no evidence to suggest that the credit quality is anything other than adequate.

The Group's accounting policy in respect of amounts receivable from customers requires that as soon as a customer misses any portion of a contractual payment the account is reviewed for impairment and the receivable is reduced to reflect the revised expected future cash flows. The result of this is that any loan which is past due (where any portion of a payment has been missed) will attract a deduction for impairment. Therefore, amounts receivable from customers include no amounts that are past due but not impaired.

## 20. Risks arising from financial instruments continued

An analysis of the amounts receivable from customers that are individually determined to be impaired is set out by geographical segment below:

| Group | Not impaired 2011 £m | Not impaired 2010 £m | Impaired 2011 £m | Impaired 2010 £m |
|---|---|---|---|---|
| Poland | **61.3** | 63.0 | **161.0** | 174.6 |
| Czech-Slovakia | **45.8** | 44.9 | **104.9** | 100.5 |
| Hungary | **27.9** | 26.8 | **40.2** | 42.6 |
| Mexico | **16.0** | 17.4 | **50.2** | 50.1 |
| Romania | **20.6** | 18.2 | **32.5** | 28.8 |
| | **171.6** | 170.3 | **388.8** | 396.6 |

This analysis includes all loans that have been subject to impairment. The impairment charge is based on the average expected loss for each arrears stage of customer receivables and this average expected loss is applied to the entire arrears stage. This results in a significant proportion of the amounts receivable from customers attracting an impairment charge. For each market the amount by which an asset is impaired depends on the type of product, the recent payment performance and the number of weeks since the loan was issued. There will, therefore, be a large amount of receivables which are classed as impaired but where the carrying value is still a large proportion of the contractual amount recoverable. Annualised impairment as a percentage of revenue for each geographical market is shown below:

| Group | 2011 % | 2010 % |
|---|---|---|
| Poland | **30.5** | 30.6 |
| Czech-Slovakia | **20.9** | 19.8 |
| Hungary | **12.1** | 15.3 |
| Mexico | **30.2** | 36.5 |
| Romania | **26.1** | 34.7 |

The carrying value of amounts receivable from customers that would have been impaired had their terms not been renegotiated is £nil (2010: £nil).

### Capital risk

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group is not required to hold regulatory capital.

The Group aims to maintain appropriate capital to ensure that it has a strong balance sheet but at the same time is providing a good return on capital to its shareholders. The Group's long-term aim is to ensure that the capital structure results in an optimal ratio of debt and equity finance.

Capital is monitored by considering the ratio of equity to receivables and the gearing ratio (borrowings to equity). The capital of the Group and these ratios are shown below:

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Receivables | **560.4** | 566.9 |
| Borrowings | **(276.5)** | (304.3) |
| Other net assets | **43.8** | 46.4 |
| Equity | **327.7** | 309.0 |
| | | |
| Equity as % of receivables | **58.5%** | 54.5% |
| Gearing | **0.8** | 1.0 |

Equity as a percentage of receivables was above the internal minimum requirement set by the Group.

Gearing, which is equal to borrowings divided by net assets, at a ratio of 0.8 times (2010: 1.0 times), is well within covenant limits of 3.75 times.

# Notes to the Financial Statements continued

## 21. Derivative financial instruments

### Fair value estimation

IFRS 7 requires disclosure of fair value measurements 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).

The fair value of other Group assets and liabilities is included in note 23. All of the Group's financial instruments fall into hierarchy level 2.

The Group's derivative assets and liabilities that were measured at fair value at 31 December are as follows:

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Assets | | |
| Foreign currency contracts | **10.0** | – |
| **Total** | **10.0** | – |

| Group | **2011 £m** | 2010 £m |
|---|---|---|
| Liabilities | | |
| Interest rate swaps | **0.3** | – |
| Foreign currency contracts | **–** | 4.5 |
| **Total** | **0.3** | 4.5 |

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.

The Company has no derivative financial instruments.

### 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 £0.4m has been credited to equity for the Group in the period in respect of cash flow hedges (2010: credit of £4.1m), Company: £nil (2010: £nil).

### Foreign currency contracts

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2011 is £270.2m (2010: £192.9m). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £266.0m (2010: £185.5m). These contracts have various maturity dates up to November 2013 (2010: November 2012). These contracts have been designated and are effective as cash flow hedges under IAS 39 and accordingly the fair value thereof has been deferred in equity;
- foreign currency contracts to buy or sell various currencies for a total notional amount of £0.5m (2010: £4.9m). These contracts have various maturity dates up to November 2012 (2010: October 2011). These contracts have been designated and are effective as cash flow hedges under IAS 39 and accordingly the fair value thereof has been deferred in equity; and
- foreign currency contracts to buy or sell sterling for a total notional amount of £3.7m (2010: £2.5m). These contracts have various maturity dates up to February 2012 (2010: January 2011). These contracts have been designated and are effective as cash flow hedges under IAS 39 and accordingly the fair value thereof has been deferred in equity.

## 21. Derivative financial instruments continued

The total notional amount of outstanding foreign currency contracts that the Company is committed to at 31 December 2011 is £3.2m (2010: £2.4m). All of these contracts are held with external providers to buy and sell currency and all have equal and offsetting contracts with other Group companies to buy and sell the same amounts of currency. This leaves the Company with no residual risk and ensures the relevant subsidiary company has an effective foreign currency contract in its books.

The Group also enters into foreign exchange forward contracts to economically hedge against forecast profits denominated in foreign currency. These foreign exchange contracts do not hedge against a specific future cash flow so do not qualify for hedge accounting; changes in their fair value are, therefore, taken to the income statement. None of these contracts were outstanding at the balance sheet date.

### Interest rate swaps

The total notional principal of outstanding interest rate swaps that the Group is committed to is £86.4m (2010: £43.4m). In 2011, these interest rate swaps cover a proportion of current borrowings relating to the floating rate Polish bond and a proportion of floating rate bank borrowings.

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 (2010: £7.3m) 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:

| | | | **2011** | | | 2010 |
|---|---|---|---|---|---|---|
| Group | **Weighted average interest rate %** | **Range of interest rates %** | **Weighted average period to maturity Years** | Weighted average interest rate % | Range of interest rates % | Weighted average period to maturity Years |
| Polish zloty | **5.3** | **4.7-5.8** | **0.7** | 4.6 | 4.6-4.7 | 0.8 |
| Mexican peso | **5.9** | **5.9** | **1.0** | – | – | – |

The Company did not hold any interest rate swaps at 31 December 2011 (31 December 2010: £nil).

## 22. Analysis of financial assets and financial liabilities

### Financial assets

An analysis of Group financial assets is presented below:

| | | | **2011** | | | 2010 |
|---|---|---|---|---|---|---|
| Group | **Loans and receivables £m** | **Derivatives used for hedging £m** | **Total £m** | Loans and receivables £m | Derivatives used for hedging £m | Total £m |
| Cash and cash equivalents | **17.9** | **–** | **17.9** | 23.5 | – | 23.5 |
| Amounts receivable from customers | **560.4** | **–** | **560.4** | 566.9 | – | 566.9 |
| Derivative financial instruments | **–** | **10.0** | **10.0** | – | – | – |
| Other receivables | **19.1** | **–** | **19.1** | 21.3 | – | 21.3 |
| | **597.4** | **10.0** | **607.4** | 611.7 | – | 611.7 |

# Notes to the Financial Statements continued

## 22. Analysis of financial assets and financial liabilities continued

### Financial liabilities

An analysis of Group financial liabilities is presented below:

| Group | 2011 Financial liabilities at amortised cost £m | 2011 Derivatives used for hedging £m | 2011 Total £m | 2010 Financial liabilities at amortised cost £m | 2010 Derivatives used for hedging £m | 2010 Total £m |
|---|---|---|---|---|---|---|
| Bonds | **231.9** | **–** | **231.9** | 236.5 | – | 236.5 |
| Bank borrowings | **44.6** | **–** | **44.6** | 67.8 | – | 67.8 |
| Trade and other payables | **57.4** | **–** | **57.4** | 55.9 | – | 55.9 |
| Derivative financial instruments | **–** | **0.3** | **0.3** | – | 4.5 | 4.5 |
| Current tax liabilities | **25.8** | **–** | **25.8** | 25.7 | – | 25.7 |
| | **359.7** | **0.3** | **360.0** | 385.9 | 4.5 | 390.4 |

## 23. Fair values of financial assets and liabilities

The fair value and carrying value of the financial assets and liabilities of the Group are set out below:

| Group | 2011 Fair value £m | 2011 Carrying value £m | 2010 Fair value £m | 2010 Carrying value £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **17.9** | **17.9** | 23.5 | 23.5 |
| Amounts receivable from customers | **747.4** | **560.4** | 800.0 | 566.9 |
| Derivative financial instruments | **10.0** | **10.0** | – | – |
| Other receivables | **19.1** | **19.1** | 21.3 | 21.3 |
| | **794.4** | **607.4** | 844.8 | 611.7 |
| **Financial liabilities** | | | | |
| Bonds | **229.0** | **231.9** | 253.1 | 236.5 |
| Bank borrowings | **44.6** | **44.6** | 67.8 | 67.8 |
| Trade and other payables | **57.4** | **57.4** | 55.9 | 55.9 |
| Derivative financial instruments | **0.3** | **0.3** | 4.5 | 4.5 |
| Current tax liabilities | **25.8** | **25.8** | 25.7 | 25.7 |
| | **357.1** | **360.0** | 407.0 | 390.4 |

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (net of collection costs) at the risk-free rate.

The carrying value of bank borrowings is deemed to be a good approximation of the 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.

The fair value of the bonds has been calculated by reference to their market value.

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 fair value.

## 24. Retirement benefit obligations

### Pension schemes – defined benefit

With effect from 1 March 2010, the Group's defined benefit pension scheme was closed to further accrual of defined benefit obligations, with all members being offered the opportunity to join an existing money purchase scheme. This crystallised a pension curtailment gain in 2010 of £2.9m, which was included as a credit within the exceptional items in the consolidated income statement (note 10).

During 2011, IPF plc undertook an enhanced transfer value exercise for certain members of the Company's closed defined benefit scheme. This exercise resulted in payments to the scheme of £4.8m, and a reduction in scheme liabilities of £8.9m from the resulting transfers out.

Scheme assets are stated at fair value at 31 December 2011. The major assumptions used by the actuary were:

| Group and Company | **2011 %** | 2010 % |
|---|---|---|
| Price inflation ('CPI') | **2.5** | 2.9 |
| Rate of increase to pensions in payment | **3.0** | 3.4 |
| Discount rate | **4.7** | 5.3 |
| Long-term rate of return: | | |
| – equities | **6.6** | 7.7 |
| – bonds | **4.7** | 5.3 |
| – index-linked gilts | **3.1** | 4.2 |
| – overall (weighted average) | **5.3** | 6.4 |

The expected return on plan 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 28 years. On average, we expect a female retiring in the future at age 65 to live for a further 29 years. If life expectancies had been assumed to be one year greater for all members, the charge to the income statement would have increased by £nil and the present value of defined benefit obligations would have increased by approximately £0.9m.

The amounts recognised in the balance sheet are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Equities | **17.3** | 19.5 | **3.8** | 4.3 |
| Bonds | **7.4** | 7.3 | **1.6** | 1.6 |
| Index-linked gilts | **4.9** | 5.2 | **1.1** | 1.1 |
| Other | **2.5** | 2.8 | **0.6** | 0.6 |
| Total fair value of scheme assets | **32.1** | 34.8 | **7.1** | 7.6 |
| Present value of funded defined benefit obligations | **(36.1)** | (38.1) | **(7.9)** | (8.4) |
| **Net obligation recognised in the balance sheet** | **(4.0)** | (3.3) | **(0.8)** | (0.8) |

# Notes to the Financial Statements continued

## 24. Retirement benefit obligations continued

The amounts recognised in the income statement are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Current service cost | **–** | 0.1 | **–** | – |
| Interest cost | **2.0** | 2.2 | **0.4** | 0.5 |
| Expected return on scheme assets | **(2.2)** | (2.1) | **(0.5)** | (0.5) |
| Past service cost | **–** | (2.9) | **–** | (0.6) |
| **Net credit recognised in the income statement** | **(0.2)** | (2.7) | **(0.1)** | (0.6) |

The net credit recognised in the income statement has been included within administrative expenses. In 2010 the past service cost is an exceptional pension curtailment gain (see note 10).

Movements in the fair value of scheme assets were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Fair value of scheme assets at 1 January | **34.8** | 30.9 | **7.6** | 6.8 |
| Expected return on scheme assets | **2.2** | 2.1 | **0.5** | 0.5 |
| Actuarial (losses)/gains on scheme assets | **(1.2)** | 1.6 | **(0.3)** | 0.3 |
| Contributions by the Group | **5.9** | 0.7 | **1.4** | 0.1 |
| Net benefits paid out | **(0.7)** | (0.5) | **(0.1)** | (0.1) |
| Plan settlements | **(8.9)** | – | **(2.0)** | – |
| **Fair value of scheme assets at 31 December** | **32.1** | 34.8 | **7.1** | 7.6 |

Movements in the present value of the defined benefit obligation were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Defined benefit obligation at 1 January | **(38.1)** | (38.4) | **(8.4)** | (8.4) |
| Current service cost | **–** | (0.1) | **–** | – |
| Interest cost | **(2.0)** | (2.2) | **(0.4)** | (0.5) |
| Actuarial losses on scheme liabilities | **(5.6)** | (0.8) | **(1.2)** | (0.2) |
| Past service cost | **–** | 2.9 | **–** | 0.6 |
| Net benefits paid out | **0.7** | 0.5 | **0.1** | 0.1 |
| Plan settlements | **8.9** | – | **2.0** | – |
| **Defined benefit obligation at 31 December** | **(36.1)** | (38.1) | **(7.9)** | (8.4) |

The actual return on scheme assets compared to the expected return is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Expected return on scheme assets | **2.2** | 2.1 | **0.5** | 0.5 |
| Actuarial (losses)/gains on scheme assets | **(1.2)** | 1.6 | **(0.3)** | 0.3 |
| **Actual return on scheme assets** | **1.0** | 3.7 | **0.2** | 0.8 |

Actuarial gains and losses have been recognised through the statement of comprehensive income ('SOCI') in the period in which they occur.

## 24. Retirement benefit obligations continued

An analysis of the amounts recognised in the SOCI is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Actuarial (losses)/gains on scheme assets | **(1.2)** | 1.6 | **(0.3)** | 0.3 |
| Actuarial losses on scheme liabilities | **(5.6)** | (0.8) | **(1.2)** | (0.2) |
| Total (loss)/gain recognised in the SOCI in the year | **(6.8)** | 0.8 | **(1.5)** | 0.1 |
| **Cumulative amount of losses recognised in the SOCI** | **(17.2)** | (10.4) | **(3.8)** | (2.3) |

The history of experience adjustments is as follows:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009* | 2008* | **2011** | 2010 | 2009* | 2008* |
| Experience (losses)/gains on scheme assets: | | | | | | | | |
| – amount (£m) | **(1.2)** | 1.6 | 3.2 | (6.7) | **(0.3)** | 0.3 | 0.7 | (1.4) |
| – percentage of scheme assets (%) | **(3.7)** | 4.6 | 10.4 | (25.1) | **(4.2)** | 3.9 | 10.3 | (23.7) |
| Experience (losses)/gains on scheme liabilities: | | | | | | | | |
| – amount (£m) | **(1.3)** | – | 0.7 | – | **(0.3)** | – | 0.2 | – |
| – percentage of scheme liabilities (%) | **(3.6)** | – | 1.8 | – | **(3.8)** | – | 2.4 | – |

*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 a stakeholder pension plan 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 plan and amounted to £0.8m for the year ended 31 December 2011 (2010: £0.5m). £nil of contributions were payable to the plan at the year end (2010: £nil).

In addition, an amount of £0.1m (2010: £0.2m) has been charged to the income statement in respect of contributions into personal pension arrangements for certain directors and employees.

## 25. Share-based payments

The Group currently operates four 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') and The International Personal Finance plc Deferred Share Plan ('the Deferred Share Plan'). A number of awards have been granted under these schemes during the period under review.

The income statement charge in respect of the Performance Share Plan and the CSOP has been calculated using a Monte Carlo simulation model as these schemes are subject to a total shareholder return ('TSR') performance target. The income statement charge in respect of the SAYE scheme is calculated using a binomial option pricing model. As there are no additional performance criteria attaching to the Deferred Share Plan the income statement charge is calculated using the actual share price at the date the award is granted. The total income statement charge in respect of these share-based payments is £1.9m (2010: £1.7m).

# Notes to the Financial Statements continued

## 25. Share-based payments continued

The fair value per award granted and the assumptions used in the calculation of the share-based payment charge are as follows:

| Group and Company | Performance Share Plan | SAYE Scheme | Performance Share Plans | SAYE Scheme | Performance Share Plans |
|---|---|---|---|---|---|
| Grant date | 2007 | 2008 | 2009 | 2009 | 2010 |
| Share price at award date | 2.50 | 2.28 | 0.95–2.14 | 1.40 | 2.22–3.02 |
| Base price for TSR | 2.26 | n/a | 1.26–1.96 | n/a | 2.08–2.56 |
| Exercise price | nil | 1.88 | nil | 1.12 | nil |
| Vesting period (years) | 3–4 | 3, 5 and 7 | 3–4 | 3, 5 and 7 | 3–4 |
| Expected volatility | 30.0% | 30.0% | 30.0% | 30.0% | 67.8–68.7% |
| Award life (years) | 3 | Up to 7 | Up to 3 | Up to 7 | 3 |
| Expected life (years) | 3 | Up to 7 | Up to 10 | Up to 7 | 3 |
| Risk-free rate | 5.7% | 5.7% | 5.7% | 5.7% | 1.8–2.3% |
| Expected dividends expressed as a dividend yield | 2.8% | 2.8% | 2.8% | 2.8% | 2.0–2.6% |
| Deferred portion | 50.0% | n/a | 50.0% | n/a | 50.0% |
| TSR threshold | 30.0% | n/a | 30.0% | n/a | 30.0% |
| TSR maximum target | 60.0% | n/a | 60.0% | n/a | 60.0% |
| Fair value per award (£) | 1.10–1.13 | 0.68–0.85 | 0.44–1.62 | 0.42–0.53 | 1.35–1.95 |

| Group and Company | CSOPs | SAYE Scheme | Performance Share Plans | CSOPs | SAYE Schemes | Deferred Share Plan |
|---|---|---|---|---|---|---|
| Grant date | 2010 | 2010 | 2011 | 2011 | 2011 | 2011 |
| Share price at award date | 2.22–3.02 | 2.34 | 3.11–3.20 | 3.11–3.21 | 3.23–3.33 | 3.18 |
| Base price for TSR | 2.08–2.56 | n/a | 3.34–3.55 | 3.34–3.55 | n/a | n/a |
| Exercise price | 2.08–3.03 | 1.87 | nil | 3.11–3.21 | 2.59–2.66 | nil |
| Vesting period (years) | 3–4 | 3, 5 and 7 | 3–4 | 3–4 | 3 and 5 | 3–10 |
| Expected volatility | 67.8–68.7% | 68.1% | 61.9–66.8% | 61.9–66.8% | n/a | n/a |
| Award life (years) | 3 | Up to 7 | 3 | 3 | Up to 5 | 3 |
| Expected life (years) | 3 | Up to 7 | 3 | 3 | Up to 5 | 3 |
| Risk-free rate | 1.8–2.3% | 1.8% | 2.4% | 2.4% | 2.4% | n/a |
| Expected dividends expressed as a dividend yield | 2.0–2.6% | 2.5% | 1.9–2.0% | 1.9–2.0% | 1.8–2.7% | n/a |
| Deferred portion | 50.0% | n/a | 50.0% | 50.0% | n/a | n/a |
| TSR threshold | 30.0% | n/a | 30.0% | 30.0% | n/a | n/a |
| TSR maximum target | 60.0% | n/a | 60.0% | 60.0% | n/a | n/a |
| Fair value per award (£) | 0.91–1.24 | 1.41 | 1.73–1.84 | 1.17–1.27 | 1.46–1.47 | n/a |

No exercise price is payable in respect of awards made under the Performance Share Plan or the Deferred Share Plan. The risk-free rate of return is the yield on zero coupon UK government bonds with a remaining term equal to the expected life of the award.

Further detail in respect of the Performance Share Plan, CSOP, Deferred Share Plan and SAYE Scheme is given in the Directors' Remuneration Report.

## 25. Share-based payments continued

The movements in the outstanding awards are outlined in the table below:

| Group | Performance Share Plan 2007 | | SAYE Scheme 2008 | | Performance Share Plans 2009 | | SAYE Scheme 2009 | | Performance Share Plans 2010 | | CSOPs 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2010 | 1,829,832 | – | 54,686 | 1.88 | 966,714 | – | 564,690 | 1.12 | – | – | – | – |
| Granted | – | – | – | – | – | – | – | – | 2,213,139 | – | 547,748 | 2.13 |
| Expired/lapsed | (1,829,832) | – | (4,908) | 1.88 | (499,638) | – | (105,943) | 1.12 | (140,762) | – | (14,416) | 2.13 |
| Exercised | – | – | – | – | – | – | (2,325) | 1.12 | – | – | – | – |
| Outstanding at 31 December 2010 | – | – | 49,778 | 1.88 | 467,076 | – | 456,422 | 1.12 | 2,072,377 | – | 533,332 | 2.13 |
| **Outstanding at 1 January 2011** | **–** | **–** | **49,778** | **1.88** | **467,076** | **–** | **456,422** | **1.12** | **2,072,377** | **–** | **533,332** | **2.13** |
| Granted | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Expired/lapsed | **–** | **–** | **–** | **–** | **(37,490)** | **–** | **(43,836)** | **1.12** | **(112,301)** | **–** | **(14,416)** | **2.13** |
| Exercised | **–** | **–** | **(7,148)** | **1.88** | **–** | **–** | **(3,580)** | **1.12** | **–** | **–** | **–** | **–** |
| **Outstanding at 31 December 2011** | **–** | **–** | **42,630** | **1.88** | **429,586** | **–** | **409,006** | **1.12** | **1,960,076** | **–** | **518,916** | **2.13** |

| Group | SAYE Scheme 2010 | | Performance Share Plans 2011 | | CSOPs 2011 | | SAYE Schemes 2011 | | Deferred Share Plan 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2010 | – | – | – | – | – | – | – | – | – | – |
| Granted | 59,409 | 1.87 | – | – | – | – | – | – | – | – |
| Expired/lapsed | – | – | – | – | – | – | – | – | – | – |
| Exercised | – | – | – | – | – | – | – | – | – | – |
| Outstanding at 31 December 2010 | 59,409 | 1.87 | – | – | – | – | – | – | – | – |
| **Outstanding at 1 January 2011** | **59,409** | **1.87** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Granted | **–** | **–** | **1,767,950** | **–** | **85,604** | **3.15** | **82,334** | **2.61** | **577,486** | **–** |
| Expired/lapsed | **(5,501)** | **1.87** | **(18,869)** | **–** | **–** | **–** | **(3,046)** | **2.61** | **–** | **–** |
| Exercised | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Outstanding at 31 December 2011** | **53,908** | **1.87** | **1,749,081** | **–** | **85,604** | **3.15** | **79,288** | **2.61** | **577,486** | **–** |

# Notes to the Financial Statements continued

## 25. Share-based payments continued

| Company | Performance Share Plan 2007 | | SAYE Scheme 2008 | | Performance Share Plans 2009 | | SAYE Scheme 2009 | | Performance Share Plans 2010 | | CSOPs 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2010 | 323,242 | – | 18,950 | 1.88 | 123,159 | – | 95,283 | 1.12 | – | – | – | – |
| Granted | – | – | – | – | – | – | – | – | 1,116,497 | – | 381,392 | 2.13 |
| Transferred | 329,539 | – | 9,650 | 1.88 | 52,789 | – | 214,143 | 1.12 | – | – | (14,416) | 2.13 |
| Expired/lapsed | (652,781) | – | (4,908) | 1.88 | (70,808) | – | (50,311) | 1.12 | (140,762) | – | – | – |
| Exercised | – | – | – | – | – | – | – | – | – | – | – | – |
| Outstanding at 31 December 2010 | – | – | 23,692 | 1.88 | 105,140 | – | 259,115 | 1.12 | 975,735 | – | 366,976 | 2.13 |
| **Outstanding at 1 January 2011** | **–** | **–** | **23,692** | **1.88** | **105,140** | **–** | **259,115** | **1.12** | **975,735** | **–** | **366,976** | **2.13** |
| Granted | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Transferred | **–** | **–** | **–** | **–** | **–** | **–** | **(25,506)** | **1.12** | **(52,143)** | **–** | **(14,416)** | **2.13** |
| Expired/Lapsed | **–** | **–** | **–** | **–** | **–** | **–** | **(16,204)** | **1.12** | **(16,845)** | **–** | **–** | **–** |
| Exercised | **–** | **–** | **(5,106)** | **1.88** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Outstanding at 31 December 2011** | **–** | **–** | **18,586** | **1.88** | **105,140** | **–** | **217,405** | **1.12** | **906,747** | **–** | **352,560** | **2.13** |

| Company | SAYE Scheme 2010 | | Performance Share Plans 2011 | | CSOPs 2011 | | SAYE Schemes 2011 | | Deferred Share Plan 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2010 | – | – | – | – | – | – | – | – | – | – |
| Granted | 43,210 | 1.87 | – | – | – | – | – | – | – | – |
| Transferred | – | – | – | – | – | – | – | – | – | – |
| Expired/lapsed | – | – | – | – | – | – | – | – | – | – |
| Exercised | – | – | – | – | – | – | – | – | – | – |
| Outstanding at 31 December 2010 | 43,210 | 1.87 | – | – | – | – | – | – | – | – |
| **Outstanding at 1 January 2011** | **43,210** | **1.87** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Granted | **–** | **–** | **788,677** | **–** | **28,631** | **3.15** | **37,337** | **2.61** | **274,990** | **–** |
| Transferred | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Expired/Lapsed | **(962)** | **1.87** | **(11,201)** | **–** | **–** | **–** | **(696)** | **2.61** | **–** | **–** |
| Exercised | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Outstanding at 31 December 2011** | **42,248** | **1.87** | **777,476** | **–** | **28,631** | **3.15** | **36,641** | **2.61** | **274,990** | **–** |

## 26. Share capital

| Company | 2011 £m | 2010 £m |
|---|---|---|
| 257,217,888 issued and fully paid up shares at a nominal value of 10 pence | **25.7** | 25.7 |

## 27. Reconciliation of profit after taxation to cash generated from operations

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Profit/(loss) after taxation | **76.5** | 59.2 | **(11.5)** | (9.5) |
| Adjusted for: | | | | |
| – tax charge | **24.0** | 29.0 | **3.7** | 3.4 |
| – finance costs | **42.9** | 40.7 | **30.7** | 18.4 |
| – finance income | **–** | – | **(27.9)** | (17.5) |
| – share-based payment charge | **1.9** | 1.7 | **–** | 1.2 |
| – defined benefit pension credit (note 24) | **(0.2)** | (2.7) | **(0.1)** | – |
| – depreciation of property, plant and equipment (note 13) | **11.1** | 11.4 | **0.2** | – |
| – loss/(profit) on disposal of property, plant and equipment (note 3) | **3.0** | (0.3) | **–** | – |
| – amortisation of intangible assets (note 11) | **3.7** | 5.1 | **–** | – |
| Changes in operating assets and liabilities: | | | | |
| – amounts receivable from customers | **(61.6)** | (36.6) | **–** | – |
| – other receivables | **(5.1)** | (5.3) | **4.1** | 53.5 |
| – trade and other payables | **6.6** | (4.9) | **33.4** | 48.0 |
| – retirement benefit obligation | **(5.9)** | (0.7) | **(1.4)** | (0.7) |
| – derivative financial instruments | **(14.2)** | 0.7 | **–** | 0.3 |
| **Cash generated from operations** | **82.7** | 97.3 | **31.2** | 97.1 |

Included within loss/(profit) on disposal of property, plant and equipment is a write-down in the carrying value of £3.2m in relation to handheld technology.

## 28. Commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| Group | 2011 £m | 2010 £m |
|---|---|---|
| In less than one year | **12.4** | 9.2 |
| In more than one year but not later than five years | **32.0** | 30.4 |
| In more than five years | **–** | 1.7 |
| | **44.4** | 41.3 |

Other commitments are as follows:

| Group | 2011 £m | 2010 £m |
|---|---|---|
| Capital expenditure commitments contracted with third parties but not provided for at 31 December | **2.8** | 1.8 |

The Company has no commitments as at 31 December 2011 (2010: £nil).

# Notes to the Financial Statements continued

## 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 £230.4m (2010: £249.2m). At 31 December 2011, the fixed and floating rate borrowings under these facilities amounted to £64.9m (2010: £83.9m). The directors do not expect any loss to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2011 was £nil (2010: £nil).

## 30. Related party transactions

The Company has various transactions with other companies in the Group. Details of these transactions along with any balances outstanding are set out below:

| | | | **2011** | | | 2010 |
|---|---|---|---|---|---|---|
| Company | **Recharge of costs £m** | **Interest charge £m** | **Outstanding balance £m** | Recharge of costs £m | Interest charge £m | Outstanding balance £m |
| Poland | **0.1** | **–** | **–** | 0.1 | 0.1 | 1.8 |
| Czech-Slovakia | **–** | **–** | **–** | – | – | 0.2 |
| Hungary | **–** | **–** | **–** | 0.1 | 0.6 | 0.2 |
| Mexico | **–** | **6.0** | **0.2** | – | 2.3 | 0.6 |
| Romania | **–** | **–** | **–** | 0.1 | 2.2 | 0.3 |
| Other UK companies | **6.9** | **16.5** | **111.7** | 5.1 | 6.7 | 145.8 |
| | **7.0** | **22.5** | **111.9** | 5.4 | 11.9 | 148.9 |

The Group's only related party transactions are remuneration of key management personnel as disclosed in note 8.

# Shareholder information

### Annual general meeting ('AGM')

The AGM will be held at 10.30am on 24 May 2012 at the Company's registered office, Number Three, Leeds City Office Park, Meadow Lane, Leeds, West Yorkshire LS11 5BD.

| Proposed dividend calendar | Announced | Ex-dividend date | Record date | Payment date |
|---|---|---|---|---|
| 2011 final | 29 February 2012 | 18 April 2012 | 20 April 2012 | 1 June 2012 |
| 2012 interim | 24 July 2012 | 5 September 2012 | 7 September 2012 | 5 October 2012 |

### Registrar

The Company's share registrar is Capita Registrars Limited of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone 0871 664 0300. Calls cost 10 pence per minute plus network extras. Lines are open 8.30am to 5.30pm Monday to Friday).

The registrar deals with all matters relating to transfers of ordinary shares in the Company and with enquiries concerning holdings, and provides a range of services to shareholders including: a dividend reinvestment scheme; setting up or amending dividend bank mandates; and amending personal details.

The registrar's website is www.capitaregistrars.com. This will give shareholders access to their personal shareholding by means of their investor code (which is printed on their share certificate). Most services will require a user ID and password which will be provided on registration.

### Duplicate shareholder accounts

If a shareholder receives more than one copy of the Company's mailings to shareholders this may indicate that more than one account is held in their name on the register of members. This happens when the registration details of different transactions are not identical. If a shareholder believes that more than one account exists in his/her name, he/she may contact the registrar to request that the accounts be combined. There is no charge for doing this.

### Electronic communication

The Company's Articles of Association permit the Company to use electronic communication when sending information to shareholders. Using electronic communication helps the Company to reduce the environmental impact of the business by limiting the amount of paper used and to manage costs. From time to time the Company consults with shareholders to check how they wish to receive information from the Company; if a response is not received a shareholder is deemed to have consented to receive information by notice that it is available on the Company's website.

Shareholders who receive such a notification are entitled to request a hard copy of the document at any time and may also change the way they receive communications at any time by contacting the registrar.

The Company last wrote to shareholders on communication method in May 2011.

### Share price

Information on our share price is available on the Company's website (www.ipfin.co.uk) and in a number of newspapers.

### Dividend history

| Payment date | Dividend | Dividend (p) |
|---|---|---|
| 19 October 2007 | 2007 interim | 1.90 |
| 23 May 2008 | 2007 final | 2.85 |
| 3 October 2008 | 2008 interim | 2.30 |
| 22 May 2009 | 2008 final | 3.40 |
| 2 October 2009 | 2009 interim | 2.30 |
| 21 May 2010 | 2009 final | 3.40 |
| 8 October 2010 | 2010 interim | 2.53 |
| 20 May 2011 | 2010 final | 3.74 |
| 7 October 2011 | 2011 interim | 3.00 |

### Share dealing and ISA service

The Company has made arrangements for its shareholders and employees with Redmayne-Bentley LLP for the provision of both an ISA and general share dealing service. Shareholders who wish to take advantage of these facilities should contact Redmayne-Bentley LLP, Merton House, 84 Albion Street, Leeds LS1 6AG (telephone 0113 243 6941).

### ShareGift

If a shareholder has a small shareholding which it is not economic to sell, he/she may wish to donate the shares to ShareGift, a registered charity (no. 1052686) which can amalgamate small holdings in order to sell the shares and pass the proceeds on to other charities. More information is available at www.sharegift.org or telephone 020 7930 3737.

# Shareholder information continued

### Boiler room scams
Unfortunately, we are aware that in 2011 some of our shareholders have been targeted by fraudsters who have made offers to buy their shares at prices substantially in excess of the market price. General information on boiler room scams is available from the 'Consumer information' pages of the FSA's website at www.fsa.gov.uk/consumerinformation.

### Capital Gains Tax base cost for UK shareholders
On 16 July 2007, Provident Financial plc demerged its international business, and shares in International Personal Finance plc, the new holding company, were listed on the main market of the London Stock Exchange. Details regarding the calculation of the base cost of the Company's shares for the purposes of the taxation of chargeable gains can be found on the Company's website (www.ipfin.co.uk).

### Company details
Registered office and contact details:
International Personal Finance plc
Number Three
Leeds City Office Park
Meadow Lane
Leeds
West Yorkshire
LS11 5BD

Telephone: +44 (0)113 285 6700
Fax: +44 (0)113 245 1675

Email: enquiries@ipfin.co.uk
Website: www.ipfin.co.uk

Company number 6018973

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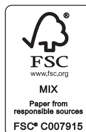


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