

The logo for International Personal Finance, featuring a blue oval with the company name in white text, set against a red background.

**International
Personal
Finance**

A photograph of two women sitting together and smiling. The woman on the left has blonde hair and is wearing a light purple cardigan and a matching scarf. The woman on the right has dark hair and is wearing a black and white striped top with a ruffled neckline. They appear to be in a bright, indoor setting.

International Personal Finance plc
Annual Report and Financial Statements 2012

Who we are

We are a leading international provider of home credit

- 2.4 million customers
- 28,500 agents and 6,330 employees
- operate in six growth markets
- well-established, successful business model
- publicly recognised for outstanding customer service and employment practices

Using the Provident brand, we provide unsecured, short-term credit to consumers wanting smaller loans and who are relatively underserved by existing financial institutions. We promote inclusive and responsible lending. Typically, our customers borrow between £50-£1,000 and repay their loans over a 12-month period with small weekly repayments reflecting their household budget.

Read more: [Where we operate – see page 08](#)

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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 ('IPF'). Company number: 6018973.

Percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate ('CER') for 2012 in order to present the underlying performance variance.

2011 customer numbers have been restated to show a like-for-like comparison throughout this statement. This reflects the decision announced in our Q3 IMS to accelerate the transfer of written off customers from the field to our debt recovery department in order to improve the level of debt recoveries.

Performance highlights 2012

2.4M 4.0%

Customers

£882.1M 13.2%

Credit issued

£650.3M 12.7%

Net receivables

£651.7M 8.8%

Revenue

£95.1M (5.4%)*

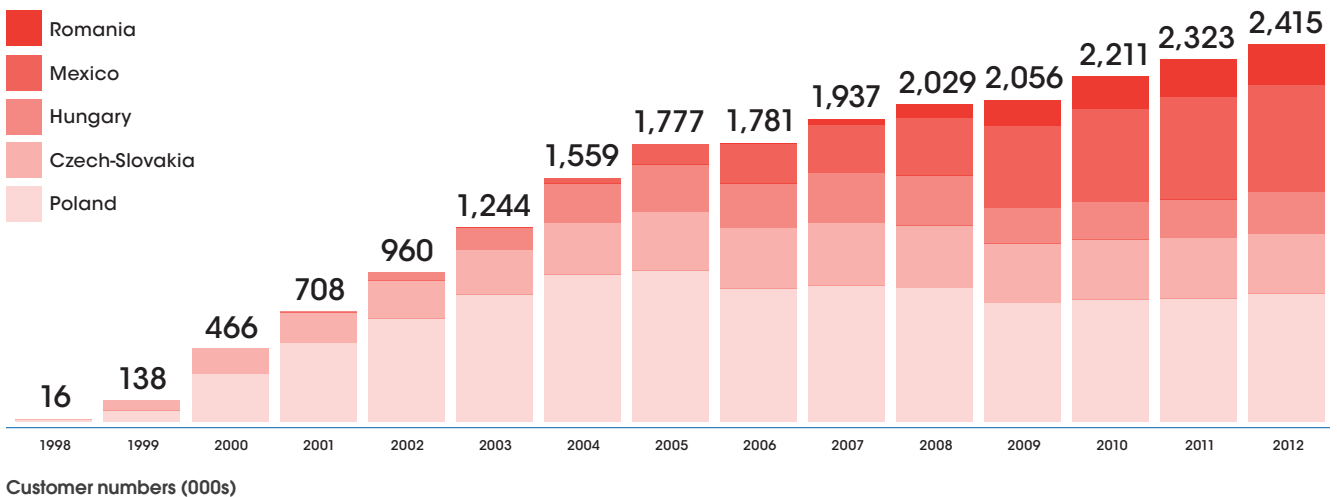
Profit before tax

7.7p 9%

Dividend per share

*Excluding an exceptional charge of £4.8M.

We have an impressive track record of customer growth



Message from the Chairman

2012 was a good year as we transitioned successfully to a new CEO, accelerated receivables growth, demonstrated the potential for profitable growth in Mexico and won a variety of awards. Pleasingly, this performance has been accompanied by a significant improvement in the Company's share price.

Gerard Ryan arrived as CEO designate at the beginning of the year and took over as CEO when John Harnett left the business at the end of March. We are very grateful to John who steered us from the Company's flotation in July 2007 and through the financial crisis of 2008-9 to become a consistently profitable two million plus customer business.

During this time we moved forward from being an overseas division of a UK-based parent company to becoming an independent, multi-country international business built around increasingly strong local management teams.

When Gerard became CEO he set about building on the platform John had created. After a rapid, but thorough, review of each of our country businesses and of the head office support they required for the future, Gerard developed his strategy for growth with the Senior Management group.

"I am also delighted to report that the business has won accolades and awards across all its markets."

Although we continue to operate in an uncertain economic environment, Gerard and his senior colleagues have set out to take advantage of the growth potential identified in our existing country businesses and to refocus the Leeds head office team to reflect the growing managerial maturity of the local management teams. The review also committed us to delivering product innovation as a priority in our existing businesses and to focus our new market entry on smaller adjacent markets in the immediate future.

We made good progress against the key priorities of the new strategy and delivered a strong trading performance. We grew revenue by 9% and reported profit before tax and exceptional items of £95.1 million reflecting strong underlying growth of £20.3 million before the impact of higher Early Settlement Rebates and weaker FX rates. We are committed to delivering good returns to our shareholders and intend to pay a full year dividend of 7.7 pence per share, an increase of 9%. I was also particularly pleased that we delivered total shareholder return for the year of 124% compared to 23% for the FTSE 250 for the same period.

During the year, the Polish business celebrated its 15th anniversary. As part of our anniversary celebrations, we were delighted to receive over 7,500 letters from customers in Poland, some past, most present, on how the business had helped them improve their lives. We now have over 820,000 customers in this market and are committed to it becoming a million customer business before too long.

I am also delighted to report that the business has won accolades and awards across all its markets – awards for customer service, our community work, as an ethical lender, as a customer friendly company committed to equality and as a great place to work. These awards reflect the skill and commitment of our local teams and bode well for the future.

We have sought to further improve our governance framework and controls. Our progress is detailed in the Governance section of this report. We have also completed a review of best practice remuneration reporting, which is reflected in the Directors' Remuneration Report that forms part of this document.

During the year we said goodbye to Charles Gregson, who had served as a wise and thoughtful non-executive director since our flotation and we welcomed Richard Moat. Richard has extensive international financial and operational experience in Telecoms, an industry which relies heavily on extending small sum credit to its customers. He also brings experience of the pace of mobile telephony development which, along with developments in the digital world, are increasingly part of the ecology of our business. I am grateful to all our non-executives for the time and effort they put in to supporting our Company in the UK and overseas.

Finally, I want to express my gratitude to our employees and agents throughout the six international markets and at our head office in Leeds. Ours is a business that requires a combination of daily attention to detail and longer-term vision. We are well served in both areas and their commitment is what makes this business tick and what has enabled us to grow and prosper despite the macroeconomic challenges of the world in which we live.



Christopher Rodrigues
Chairman



**“There is growth potential
in our existing businesses
and we are committed
to delivering product
innovation.”**

Christopher Rodrigues
Chairman

How we create value

Our business model has operated successfully for 130 years. Through the provision of consumer credit we make a difference to our customers' everyday lives.

A typical customer journey



Home credit

We offer home credit in the form of affordable, unsecured, short-term cash loans to people who need a small amount of money. Customers can repay their loan by money transfer to a bank account or through our optional home collection service delivered by our network of agents.

The total amount payable by our customers represents the loan amount and the charge for credit and other services, which is generally fixed at the outset of the loan. This is repaid in equal weekly instalments over the term of the loan.

Strong core relationships

Strong, personal relationships between our customers, agents and Development Managers are at the core of the business. The weekly, face-to-face contact differentiates us from other financial services providers and this is key to customer retention and growth. Our customers like the convenience, personal contact and flexible repayment routine of the home service. It also helps us understand our customers' circumstances and allows agents to assess new loan opportunities to good quality, profitable customers.

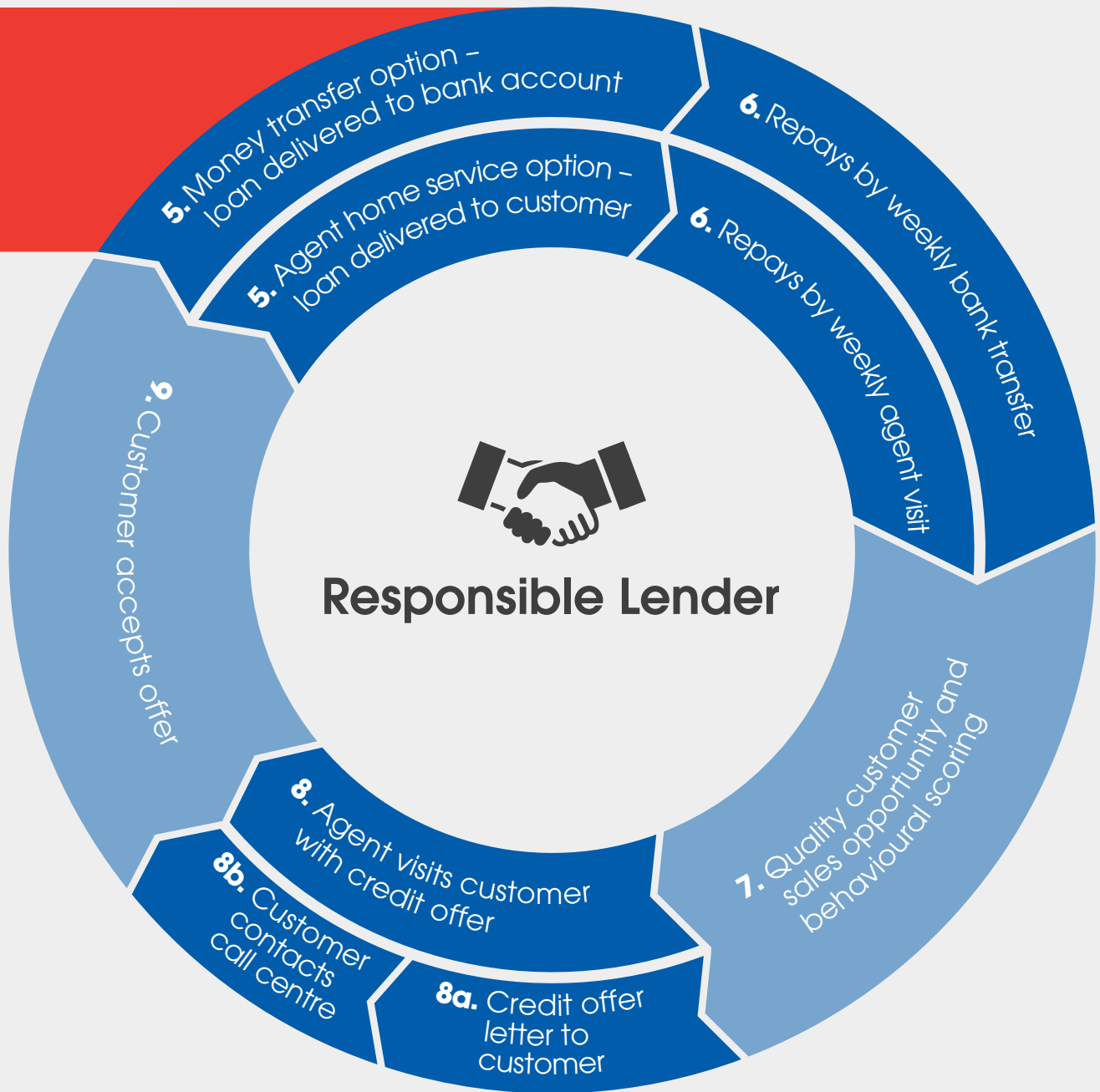
Responsible lending

Our bespoke credit management systems and agent service help reduce the risk of customers falling behind with their repayments. We employ a 'low and grow' approach, starting new customers with a small loan. Only when they have demonstrated their ability and willingness to repay their first loan will we offer a larger amount, if they require it. There are no extra charges for missed or late repayments on our home collected product and our agents are paid largely on the amount of money they collect rather than what they lend – responsible lending is therefore built into the business model.

Sustainable profitability

Our business model is cash and capital generative as a result of good margins coupled with the short-term nature of our loan book. We aim to grow profit through expanding our customer base and giving good quality customers the opportunity to borrow larger amounts. And while we look to expand our footprint and introduce new products, retaining the unique relationship between our customers, their agent and the Development Manager will remain at the core of our model.

Read more: Our customers – see page 18



A growth business

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

Our investment proposition

The business model is resilient, we are profitable and our people are focused on our strategy to accelerate growth.

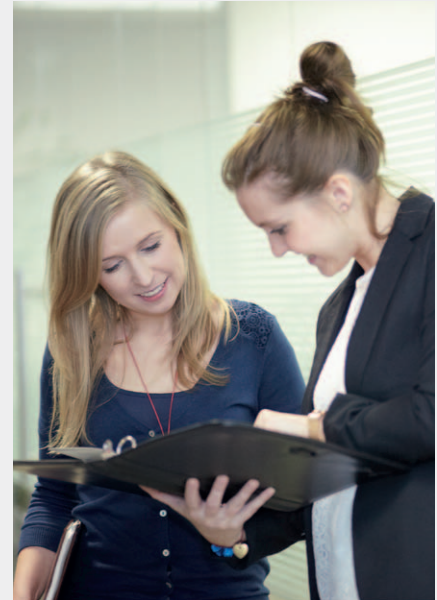


Resilient business model

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 and continue to generate good margins and returns as we manage the business successfully through the challenging economic times that are still affecting Europe.

20.1% return on equity

14.6% profit margin



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 of control to ensure compliance with our risk appetite and regulatory requirements.

27.0% impairment as a percentage of revenue

2.1% credit exceptions



Experienced and motivated people

The engagement, leadership skills and expertise of our people are key to delivering high levels of customer service and delivering our business plans. Our development programmes and initiatives have contributed to improved engagement and are helping to create the next generation of leaders. This is evidenced by the promotion of two long-term employees to Country Manager roles in 2012.

80.3% employee retention

61.1% agent retention



Strong financial profile

Our home credit business model is cash and capital generative. We are well capitalised with shareholders' equity representing 57.8% of receivables, the equivalent of a bank's Tier 1 ratio. 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 our core funding covenants.

57.8% equity to receivables ratio

0.8x gearing



Good profitable growth prospects

We are improving and expanding our existing operations to deliver faster growth and profitability. We also plan to introduce new products and expand into new markets adjacent to our existing operations in Europe where we believe there is significant demand for small sum, short-term cash loans.

4.0% customer growth

8.8% revenue growth

Read more: Financial review - see page 28

Where we operate

We operate in six markets with a central team based in the UK focused on supporting our international operations.

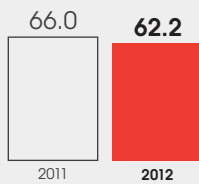
Working partnerships

Since the launch of our new strategy, our UK and market teams are working together more effectively to support accelerated growth of the business.

Poland

Our Polish business continued to perform very strongly.

Profit before tax (£M)



Established
1997

Population
38.2M

Number of customers
821,000

Number of employees
1,950

Number of agents
8,900

Number of branches
79

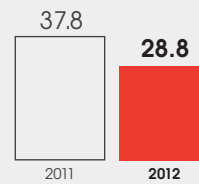
Average credit issued per customer
£405

Currency
Polish zloty

Czech Republic and Slovakia

A consistent performer focused on delivering stronger growth in 2013.

Profit before tax (£M)



Established
1997/2001

Population
10.5M/5.4M

Number of customers
383,000

Number of employees
900

Number of agents
4,500

Number of branches
36

Average credit issued per customer
£538

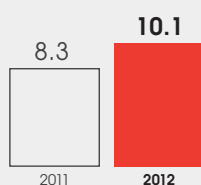
Currency
Czech crown/euro



Hungary

A very strong performance; excellent growth and credit quality.

Profit before tax (£M)



Established
2001

Population
10.0M

Number of customers
268,000

Number of employees
710

Number of agents
2,700*

Number of branches
18

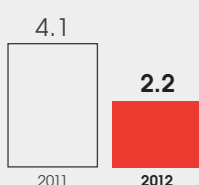
Average credit issued per customer
£446

Currency
Hungarian forint

Romania

A difficult year amid challenging macroeconomic conditions. Plan to move focus from collections progressively towards growth in 2013.

Profit before tax (£M)



Established
2006

Population
21.4M

Number of customers
260,000

Number of employees
700

Number of agents
3,800

Number of branches
18

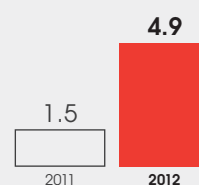
Average credit issued per customer
£343

Currency
Romanian leu

Mexico

Performance on track driven by improved operations and strong controlled growth.

Profit before tax (£M)



Established
2003

Population
114.8M

Number of customers
683,000

Number of employees
1,910

Number of agents
8,600

Number of branches
54

Average credit issued per customer
£221

Currency
Mexican peso



*agents are employed in Hungary

Message from the CEO

In a year of significant change, with new leadership and a new strategy, IPF has continued to perform very strongly, serving more customers and increasing revenue whilst maintaining tight control of impairment levels. Our new strategy is embedded throughout the business and will set us up for further success in the years ahead.

I would like to start my first Annual Report and Financial Statements as CEO of IPF by thanking John Harnett, my predecessor, for ensuring that our handover was both seamless and positive. It is a great privilege for me to lead IPF, a robust business that has outstanding growth prospects and is driven to support our customers' needs by an international team of dedicated employees and agents.

My initial insights

I spent my first two months travelling through our operating businesses and meeting as many of our employees and agents as I could. It became clear to me that this is a unique business, with a track record of success built on an intimate knowledge of our customers and their borrowing requirements. Our internal and external processes, through which we engage with our customers, have withstood the test of time. They are a key component of the identity of the business, involving our agents in more than one hundred million customer home visits a year.

As a result of the proven success of the business model, it is fair to say that whilst significant change had taken place in the way other financial services operators provide their services, our customer engagement model had remained largely unaltered.

In addition, I observed an organisation focused on delivering growth through its existing operating businesses, but perhaps at the expense of missing out on new market and product development opportunities.

A new strategy for growth

Following several weeks of intensive reviews with the operating businesses and our central team in Leeds, the Senior Management Group articulated a new strategy for the business. This was based on the premise that IPF is fortunate to operate in a sector where there are significant growth opportunities available to it internationally, both in our existing and potential new markets.

2012 performance

At the start of 2012, much of the discussion about the prospects for the business focused on the twin headwinds of adverse foreign currency movements and the increased levels of Early Settlement Rebates. I am delighted to say that through the hard work and dedication of our employees and agents, we have in fact negated a large portion of these financial impacts, delivering a profit before tax and exceptional items of £95.1 million.

Our growth in credit issued, receivables and revenue is very positive. We deliberately increased our credit risk

appetite on a selective basis throughout 2012, but as a result of the expertise of our teams and well developed credit strategies, our impairment to revenue has remained firmly within our target range of 25%-30% as planned at 27.0%. Our cost reduction programme is also delivering efficiencies demonstrated by our cost-income ratio which reduced by 1.2 percentage points to 39.8%.

Investing in our people

Throughout the year, we made the assessment, development and retention of our key talent a top priority of the business. Our people and organisation planning process is being rolled out and this will form the core of our succession planning strategy for the next few years. Where necessary, we are recruiting external talent to broaden our skill set, particularly in the areas of marketing and technology.

Playing our part

As a large and growing enterprise, it is important that we play our part in creating a sustainable business. Rather than attempt to list all of the ways in which we do this, I believe that it is best encapsulated in the values by which we lead the business on a day-to-day basis: we are 'Respectful' and treat others as we would like to be treated; we are 'Responsible', taking care in all our actions and decisions; and we are 'Straightforward' by being open and transparent in everything we do.

Ultimately, our success in this area will be judged by our stakeholders. Whilst this journey will never be complete, the breadth and number of industry awards won by our businesses leads me to believe that we are on the right path. I am particularly pleased that our business in the Czech Republic was reaffirmed as the country's most ethical financial institution in 2012 and that our Hungarian operation was voted the best place to work in Hungary. We have included more details on the other key accolades we have received in the Sustainability section of this report.

Looking forward

It is often said that in order to know where you are going, it is important to know where you have come from. IPF is a business with a great record of success, built on years of experience and expertise gained by its employees and agents – people who are dedicated to serving our customers and growing the business. Whilst there will be obstacles to overcome, I believe that our business is headed firmly in the right direction to deliver its next chapter of growth.



Gerard Ryan
CEO



**“IPF operates in a sector
where there are significant
growth opportunities.”**

Gerard Ryan
CEO

Our strategy

We have made good progress against our strategy and it is building momentum.

Our strategy for growth



Strategy for growth

In July we announced our new strategy to accelerate growth and increase shareholder value. The strategy is well embedded into the business and is building momentum. The four key areas of focus are:

- expand our geographic footprint;
- improve customer engagement;
- develop our sales culture; and
- improve our skills base and technology to execute the strategy.

We began the process of strategy development with a management restructuring exercise. We redefined the role of the UK head office and management resource required in-market to strike a better balance between operations and the rest of the business and enable accelerated delivery of the new strategy. The restructure was completed as planned in the second half of the year and the collaborative partnerships between our UK and market teams are now working more effectively in delivering both product and operational execution.

Expand footprint

We aim to grow the business in our existing markets and in new countries, organically and through bolt on acquisitions, should the appropriate opportunities arise. After a process of detailed evaluation, we plan to expand our footprint with two new market entries into Bulgaria and Lithuania in 2013.

Both new countries provide the opportunity to expand into markets adjacent to our existing European operations. Bulgaria (7.2 million population) will be managed by our team in Romania and Lithuania (3.2 million population) will be led by management in Poland. Our adjacent market strategy should shorten the J-curve by leveraging our existing infrastructure and, therefore, reduce costs compared with a standalone market entry.

Improve customer engagement

Today our customers rate their experience with us very highly, but it is vital that we constantly evolve to keep pace with the way our customers' behaviours are changing. This means we will have to offer customers a broader portfolio through which they can engage with us, including more automated channels and a larger range of products. We intend to invest more time and energy in understanding fully the different segments of our customer base so our interactions with customers are more tailored and more successfully meet their specific needs.

In addition, we will actively engage with credit bureaux where there is a viable option to further enhance our credit management systems.



“We plan to expand our footprint with new market entries into Bulgaria and Lithuania.”

In 2012, we commenced our new product development programme. Our preferential pricing product, which rewards our most loyal customers with reduced interest rates, was rolled out in Slovakia after a successful pilot. This has since been launched as a pilot in Poland and Hungary with further tests planned in other markets later this year. This initiative has been very well received by our customers as well as our agents who welcome the opportunity to reward and retain their best customers by offering a better interest rate. We introduced longer-term loans in three markets – a 90-week loan in Poland and a 100-week product in both the Czech Republic and Slovakia. These loans are being offered to high-quality customers and the initial results are promising. Longer, larger loans appeal to our customers' changing needs and will help with acquisition and retention. We have also started a pilot in our Hungarian business to sell home insurance with a third party insurer through our existing infrastructure.

“Preferential pricing has been very well received by our customers as well as our agents who welcome the opportunity to reward and retain their best customers by offering a better interest rate.”

Develop a sales culture

Our intention is to achieve a subtle change in the balance of how we do business. This will see us move from an entirely process driven approach to one where marketing knowledge and expertise play a far greater role in determining how we seek out new growth opportunities.

Field management and agents have a key role to play in delivering faster growth. A number of initiatives have been introduced this year to increase engagement of our people, and reward management and agents for growth.

Execution

Our future success will be enhanced by better use of technology and we are currently undertaking a series of significant developments on this front. This is a multi-year programme that will help us to meet the needs of an expanding business and a far more technology adept consumer.

The final but very important element of our new strategy is a firm commitment to our shareholders to make our balance sheet work harder on their behalf.

Our publicly stated targeted level of equity to receivables is 55% and this is based on the current macroeconomic environment and our funding structure. To the extent that we do not have a specific investment opportunity for capital in excess of this level, we will find an efficient means of returning this surplus to shareholders. With this in mind, we successfully completed our first share buyback in the second half of the year, purchasing and cancelling £25 million worth of shares.

It is clear that each of our businesses is now fully engaged with our new Strategy for Growth and since its rollout we have made good progress on many fronts. The changes we made to the structure and roles of our head office functions are already paying dividends and the increased level of collaboration across the business is helping us to move forward at a faster pace. Our technology overhaul will take some time to complete, but the foundations are being put in place as we speak. We remain confident and enthusiastic about our prospects for growth in 2013 and beyond.

Sustainability

We are committed to sustainable growth and aim to actively manage the social, ethical and environmental aspects of our business to deliver long-term, positive performance. We take a holistic approach to sustainability across the business and aspire to integrate the requirements of our key stakeholders into decision-making processes, risk management and project planning.

Sustainability is important in driving a positive corporate reputation amongst key stakeholder groups and underpins our strategy for growth. We report on sustainability using best practice methodology including the Global Reporting Index, DEFRA GHG factors for company reporting and the London Benchmarking Group. More details on our sustainability programme and basis for reporting can be found at www.ipfin.co.uk.

Stakeholder engagement

During 2012, we have held stakeholder roundtables in each of our markets, inviting groups such as regulators, trade and industry associations and non-governmental organisations ('NGOs') focusing on finance or credit, responsible investment and research. Key themes discussed in 2012 included financial inclusion, the role of IPF and our loans in the community and the use of credit in promoting social and financial mobility. We also communicate with key stakeholders through one-to-one contact, employee and agent forums, customer surveys and focus groups.



Our Czech colleagues were involved in planting trees in the Jizera mountains as part of a volunteering project.

Business ethics

During 2012 we took steps to enhance our existing ethical management structure. This included research into ethical dilemmas that we may face with responsible lending and transparent and fair terms and conditions.

A substantial amount of work has been completed to ensure these issues are managed effectively and we also focused on consolidating this into a refreshed Code of Ethics. The new code will be launched across the business in 2013.

Community investment

We have community investment programmes in each of our markets with a key strategic focus on financial literacy. Through local NGO partnerships we delivered a number of initiatives. We support and deliver financial education workshops across a number of markets, coach representatives of NGOs to deliver financial literacy workshops, publicise financial literacy in the media and provide online tools for budget planning, such as a smartphone application in Romania.

We encourage employees, agents and customers to have a say in how funds are invested in our community activity. We also promote employee motivation and skills development through a range of volunteering opportunities. In 2012 our Group contribution to charities and community organisations was £0.9 million, representing 0.95% of pre-tax profit. Our employees volunteered 18,000 hours of time during work hours and 33,000 hours overall.

During the year we also focused on using social media to engage with some of our key audiences. In the Czech Republic for example, our 'Helping with Provident' site allows customers and the general public to vote on the community projects that we support.

“We have been recognised externally for our high standards and sustainable approach to doing business.”

Responsible supply chain management

We recognise that in order to achieve sustainable growth we need to manage our supply chain and work with suppliers who share our values and adhere to our sustainability principles. During 2012 we developed a new responsible supply chain management approach, which is tailored towards key industries, and will be used as part of the selection process for all larger value contracts from early 2013.

Environmental management

We try to minimise our impact on the environment and conserve natural resources. We have set a series of carbon and natural resource-use reduction objectives, which we aim to achieve by the end of 2013 (using 2010 as a base year). This includes reducing the use of petrol, diesel, electricity and paper, and increasing the percentage of recycled paper that we use. In 2012 our carbon footprint, when normalised against customer numbers, reduced by 7% against 2011 levels.

2012 Awards

We have been recognised externally for our high standards and sustainable approach to doing business in all our markets. Our awards show we are a market-leading home credit business that is committed to customer care, our people and the local communities we serve.



FTSE4Good

Ranked amongst the world's best scoring financial services companies for our environment and social governance ratings and demonstrating our commitment to responsible business.



Best Workplace awards

Ranked the Best Workplace in Hungary employing more than 1,000 people and the Hungarian business was also ranked sixth Best Workplace in Central and Eastern Europe.



Gender Equity Model

For the third consecutive year, Provident in Mexico was certified with the Gender Equity Model (MEG: 2003) in recognition of its equal opportunities policies.



Most ethical lender

Our Czech business was reaffirmed as the country's most ethical financial institution by Člověk v tísni (Man in Need), an influential NGO.



Customer Friendly Company award

Provident in Poland was awarded a Customer Friendly Company award after meeting strict customer service criteria, assessed by the Management Observatory Foundation.





Golden Award for PR Excellence

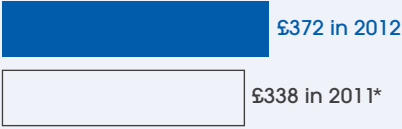
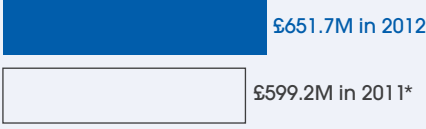
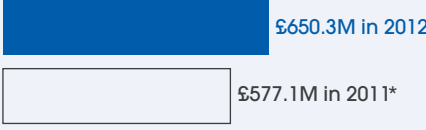
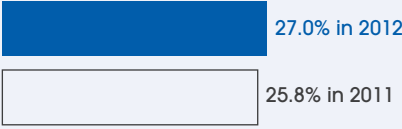
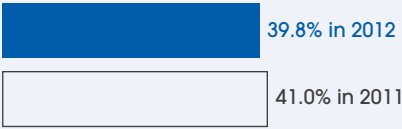
Provident in Romania was recognised for its Bugetul Familiei (the family budget) Financial Education programme.

Key performance indicators – non-financial

We use a range of non-financial and financial key performance indicators (KPIs) to measure our performance against our strategy.

Key performance indicator									
<p>Customers</p>  <p>2,415,000 in 2012</p> <p>2,323,000 in 2011</p>	<p>The total number of customers across the Group. At the end of 2012 we had 2.4 million customers an increase of 4.0% on 2011.</p> <p>Strategic link</p> <ul style="list-style-type: none"> 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. 								
<p>Agents</p>  <p>28,500 in 2012</p> <p>28,400 in 2011</p>	<p>The number of agents across the Group. At the end of 2012 we had 28,500 agents.</p> <p>Strategic link</p> <ul style="list-style-type: none"> The number of agents determines directly the number of customers we can serve. We work hard to motivate and guide agents to develop their customer portfolios, service and retain customers. We focus on identifying high performing agents and are working to manage our agents on the basis of performance. 								
<p>Employee and agent retention</p> <table border="0"> <tr> <td>Employees 2011</td> <td>2012</td> </tr> <tr> <td>81.1%</td> <td>80.3%</td> </tr> <tr> <td>Agents 2011</td> <td>2012</td> </tr> <tr> <td>59.1%</td> <td>61.1%</td> </tr> </table>	Employees 2011	2012	81.1%	80.3%	Agents 2011	2012	59.1%	61.1%	<p>The proportion of employees and agents who have been working with us for more than 12 months. Employee retention was partially impacted by our restructuring. Agent retention improved by two percentage points.</p> <p>Strategic link</p> <ul style="list-style-type: none"> 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 people development.
Employees 2011	2012								
81.1%	80.3%								
Agents 2011	2012								
59.1%	61.1%								
<p>Customer retention</p> <table border="0"> <tr> <td>2011</td> <td>2012</td> </tr> <tr> <td>52.5%</td> <td>55.8%</td> </tr> </table>	2011	2012	52.5%	55.8%	<p>The proportion of customers that are being retained to their third or subsequent loan. Our ability to retain customers is central to achieving our financial targets and growth ambitions. Customer retention in 2012 increased to 55.8%.</p> <p>Strategic link</p> <ul style="list-style-type: none"> Retention is the key indicator of the quality of our customer service as well as the quality of customers. We do not retain customers who have a poor payment history as it can create a continuing impairment risk and runs counter to our responsible lending commitments. 				
2011	2012								
52.5%	55.8%								
<p>Credit exceptions</p> <table border="0"> <tr> <td>2011</td> <td>2012</td> </tr> <tr> <td>2.2%</td> <td>2.1%</td> </tr> </table>	2011	2012	2.2%	2.1%	<p>Credit exceptions are recorded in those cases where lending has exceeded one or more credit parameters defined in the Group credit rules. Credit exceptions reduced to 2.1% in 2012.</p> <p>Strategic link</p> <ul style="list-style-type: none"> Our credit policies set out our basis for responsible lending. They also set limits for lending activity which reflect our credit risk appetite. 				
2011	2012								
2.2%	2.1%								

Key performance indicators – financial

Key performance indicator	
<p>Credit issued per customer</p>  <p>£372 in 2012</p> <p>£338 in 2011*</p>	<p>The value of money loaned to customers normally measured over the previous 12 months. In 2012, credit issued per customer was £372, an increase of 10.1% on 2011.</p> <p>Strategic link</p> <ul style="list-style-type: none"> • A key 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.
<p>Revenue</p>  <p>£651.7M in 2012</p> <p>£599.2M in 2011*</p>	<p>Income generated from customer receivables. In 2012 Group revenue was £651.7 million, an increase of 8.8% on 2011.</p> <p>Strategic link</p> <ul style="list-style-type: none"> • 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.
<p>Net customer receivables</p>  <p>£650.3M in 2012</p> <p>£577.1M in 2011*</p>	<p>The amount outstanding from customers for loans issued less impairment provisions calculated in accordance with our International Financial Reporting Standards compliant accounting policies. At the end of 2012, net customer receivables were £650.3 million, up 12.7% on 2011.</p> <p>Strategic link</p> <ul style="list-style-type: none"> • 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.
<p>Impairment</p>  <p>27.0% in 2012</p> <p>25.8% in 2011</p>	<p>The amount charged as a cost to the income statement as a result of customers defaulting on contractual loan payments stated as a percentage of revenue. A default is classified as the failure to make any weekly payment in full. The cost includes the value of receivables written off as irrecoverable as well as provisions for expected future defaults. In 2012, impairment increased to 27.0% of revenue and is well within our target range of 25% to 30%.</p> <p>Strategic link</p> <ul style="list-style-type: none"> • 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.
<p>Cost-income ratio</p>  <p>39.8% in 2012</p> <p>41.0% in 2011</p>	<p>Expressing the direct expenses of running the business, excluding agents' commission and FX, as a percentage of revenue is useful for comparing performance across markets. In 2012, the cost-income ratio improved by 1.2 percentage points to 39.8% and was below 40% for the first time.</p> <p>Strategic link</p> <ul style="list-style-type: none"> • The lower our cost-income ratio, the more efficient we are and the more profit we make.

*Prior year figures are restated at constant exchange rates.

Our customers

Our customers choose home credit because they wish to borrow small sums that can be repaid in regular, affordable amounts. They like the convenient agent service and the fact that if they choose this option there are no extra charges for missed or late repayments.



"I have been a Provident customer for 18 months. When my son was born our washing machine broke so we used a Provident loan to buy a new one. We used another loan to pay for a family holiday and, most recently, we bought a new television.

"I am very satisfied with the service I receive from my Provident agent. I always choose to take the home collection service so I don't have to travel to a bank or post office. It's really convenient and my agent is helpful, kind and polite."

Mr Aradi - Hungary

"I like the fact that I can repay my loan in weekly instalments, in my own home, without having to deal with cheques or queuing in the bank.

"My agent always arrives on time to collect my repayments and I like to think the trust that we have is mutual. I understand I have a responsibility to repay my loan on time as agreed."

Mrs Barna - Hungary



"With Provident, worries don't go away, but at least you know you can get some extra money when you really need it, and Provident does make a difference. My daughter is attending a good university because I was able to pay her registration fees after I took out a loan with Provident and in the spring I bought my son a new bicycle. Importantly my agent is always there to help me."

Mr Alexandru - Romania

"I have been a Provident customer for several years, using loans to finance my small bakery business. With my first loan, I bought the basic essentials; flour, sugar and yeast, to get me up and running. With my last loan I purchased a mixer to help me produce more bread, pastries and cakes that I sell locally.

"What I like about Provident is the relationship I have with my agent. She lives in my local community and I see her at least once a week. She is always clear about the loan repayments. I've recommended Provident to numerous friends and neighbours and, most recently, my niece."

Mrs Maldonado - Mexico

"What I like about Provident is the relationship I have with my agent. She lives in my local community and I see her at least once a week."



"I like Provident for the excellent customer service - my agent is always on time, friendly and helpful."



"In 2003 I took my first loan with Provident. I used the money to replace all the windows in my flat. I was able to buy them really quickly because shortly after contacting Provident they sent an agent round to my house who did some basic identification and financial checks and then arranged for the money to be delivered the same day - it's a really quick service, which is great when you need the money.

"I like Provident for the excellent customer service I receive and my agent is always on time, friendly and helpful."

Mrs Jarosiska - Poland

Our customers - key facts

60% are female

67% have a bank account

Operational review

Our strategy for growth is building momentum and we are focused on targeting faster growth in 2013.

Market review and regulation

Our strong trading performance in 2012 was delivered against a mixed global macroeconomic backdrop. In Europe, there has been some stabilisation of the macroeconomic environment and a reduction in the systemic risk of European nations defaulting on their debt. However, average GDP growth across our European markets was just 0.4% in 2012 and is expected to remain at a low level this year. The relative strength of sterling against the local currencies of our markets in Europe impacted Group profit negatively by £14.9 million in 2012. In contrast, economic growth in Mexico was much stronger with 2012 GDP growth of 3.9% and a similar level is expected in 2013.

Consumer confidence in Europe remained low and largely stable throughout the year and the supply of credit remained lower than pre-crisis levels. Consumer confidence in Mexico is higher and is on an upward trend.

The main regulatory change impacting the business has been the Consumer Credit Directive ('CCD') which was implemented progressively in our European markets between March 2010 and December 2011 and has resulted in an increase in the cost of Early Settlement Rebates ('ESRs'). Poland and the Czech Republic were the last of our markets to implement the CCD and profit in these markets was impacted, as expected, by £10.8 million of additional ESR costs in 2012. They will also continue to impact profit in Poland in 2013.

Going forward the key themes for the regulators of European financial services continue to be over-indebtedness, shadow banking and the Financial Transaction Tax. In Poland and Slovakia there are also ongoing discussions surrounding the design of the existing rate caps. We are contributing to all these debates through our in-house teams and trade associations.

Operational performance

Against this backdrop, the Group delivered good results in 2012 with a £95.1 million profit before tax and exceptional item. The key drivers of this strong trading performance were a 13% increase in credit issued growth leading to a 9% increase in revenue, credit quality in the middle of our target range and a reduction in our cost-income ratio. These factors contributed to underlying profit growth of £20.3 million which offsets most of the impact of the higher ESRs and weaker FX rates noted above. The Group results are set out below:

“The underlying profit improvement during the year was £20.3 million, with Poland, Hungary and Mexico being the key drivers.”

	2012 £M	2011 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	2,415	2,323	92	4.0	4.0
Credit issued	882.1	844.5	37.6	4.5	13.2
Average net receivables	588.3	575.5	12.8	2.2	11.2
Revenue (net of ESRs)	651.7	649.5	2.2	0.3	8.8
Impairment	(176.2)	(167.7)	(8.5)	(5.1)	(14.3)
	475.5	481.8	(6.3)	(1.3)	6.9
Finance costs	(41.6)	(42.9)	1.3	3.0	(4.8)
Agents' commission	(74.9)	(72.9)	(2.0)	(2.7)	(11.3)
Other costs	(263.9)	(265.5)	1.6	0.6	(4.6)
Profit before taxation and exceptional item	95.1	100.5	(5.4)	(5.4)	
Exceptional item – restructuring	(4.8)	–	(4.8)	–	
Profit before taxation	90.3	100.5	(10.2)	(10.1)	

The value of credit issued grew by 13% (2011: 12%). This was achieved through increasing customer numbers by 4% and growing the amount of credit issued per customer by around 9%, partly supported by the selective easing of credit settings and the introduction of longer-term loans in our Central European markets and Mexico. This growth was reflected in higher average net receivables which increased by 11% to £588.3 million.

Revenue grew by 9% in 2012 (2011: 7%) and the rate of growth accelerated during the year from 7.3% in the first quarter to 10.4% in the fourth quarter as follows:

	Q1	Q2	Q3	Q4	Full year
Revenue growth	7.3%	8.2%	9.1%	10.4%	8.8%

This growth was achieved after the £10.8 million impact of higher ESRs in 2012. The higher ESR cost in Czech-Slovakia has now been embedded fully in the income statement and we expect a further year-on-year impact in Poland of between £10 million and £15 million in 2013.

In tandem with delivering good growth, our collections performance remained robust and good credit quality was maintained. As planned, impairment as a percentage of revenue increased slightly, moving from 25.8% to 27.0%, but remains well within our target range of 25% to 30%.

“The Group delivered good results in 2012.”

Finance costs increased by 5%, which is less than half the growth in average net receivables. This reflects our ability to generate additional capital. Agents' commission costs, which are based largely on collections in order to promote responsible lending, increased by 11% to £74.9 million in line with growth in the business.

Our cost-income ratio at 39.8% was 1.2 percentage points lower than 2011 and we intend to target further cost efficiencies in 2013. This is despite spending an additional £7.3 million in growth-targeted investments, largely in promotional and incentive activity for our field management teams, designed to drive growth. In the medium term we are targeting a cost-income ratio of around 35%.

Segmental results

The following table shows the performance of each of our markets, highlighting the impact of the higher ESRs and weaker FX rates to provide a better understanding of underlying performance:

	2012 reported profit £M	Underlying profit movement £M	Additional ESR costs £M	Weaker FX rates £M	2011 reported profit £M
Poland	62.2	10.3	(4.2)	(9.9)	66.0
Czech-Slovakia	28.8	0.3	(6.6)	(2.7)	37.8
Hungary	10.1	3.7	-	(1.9)	8.3
Romania	2.2	(1.7)	-	(0.2)	4.1
Mexico	4.9	3.6	-	(0.2)	1.5
UK costs	(13.1)	4.1	-	-	(17.2)
Profit before taxation*	95.1	20.3	(10.8)	(14.9)	100.5

*Excluding exceptional restructuring charge of £4.8 million.

The underlying profit improvement during the year was £20.3 million, with Poland, Hungary and Mexico being the key drivers. All three markets delivered good growth in credit issued whilst maintaining or improving credit quality, thus reporting strong increases in net revenue. In Czech-Slovakia, top-line growth was slower than we would have liked and underlying profit growth was marginal. Trading conditions in Romania were challenging and net revenue growth was lower than expected, which resulted in a reduction in underlying profit. The cost saving in the UK reflects a reduction in costs arising from the management restructuring exercise and the fact that 2011 included a one-off charge of £3.2 million.

As stated previously, the relatively strong performance of sterling during the year resulted in the effective average FX rates in our markets being significantly weaker throughout 2012 than in 2011. The adverse profit impact was £14.9 million with the largest impact seen in Poland. In October 2012, we announced that from January 2013 we will no longer hedge the rates at which we translate currency profits into sterling. This policy change reflects the fact that the underlying currency cash flows are the main driver of shareholder value and that currency hedges as previously executed do not protect the business against long-term exchange rate movements. The change in policy is also expected to reduce the overall treasury costs of the business.

Operational review continued

Adjustments to interest allocation

Under our current interest allocation methodology there are significant differences in the equity to receivables ratios between markets and this makes performance comparisons between our businesses less meaningful. From 2013, we intend to treat our operating entities on a like-for-like basis, allocating interest to each market using a consistent equity to receivables ratio and the Group's weighted average margin of debt funding. This is in line with the security offered to all providers of debt finance and will facilitate improved comparability of performance across our markets. If this new policy had been in place during 2012 it would have had the following impact on segmental profit:

	2012 reported profit £M	Adjustment £M	2012 adjusted profit £M
Poland	62.2	(7.3)	54.9
Czech-Slovakia	28.8	(1.7)	27.1
Hungary	10.1	2.4	12.5
Romania	2.2	2.3	4.5
Mexico	4.9	4.3	9.2
UK costs	(13.1)	-	(13.1)
Profit before taxation*	95.1	-	95.1

*Excluding exceptional restructuring charge of £4.8 million.

As a result of the changed interest allocation methodology, we have revised our profit target in Mexico to £33 per customer by 2015.

The quarterly impact of this change in each market for 2011 and 2012 is available on our website at www.ipfin.co.uk/investors.

Secondary listing of IPF shares

Our Polish business, with 821,000 customers, is our largest home credit operation and most profitable market. We plan to obtain a secondary listing of IPF shares on the Warsaw Stock Exchange ('WSE') to enable Polish investors, particularly pension funds, to invest in the business more easily. This will be a technical listing with no new equity to be raised.

Outlook

We have a robust and successful business with a well-funded balance sheet and good profitable growth prospects in all our markets. With our new strategy embedded successfully in the business, we remain confident of delivering accelerated growth in all our existing markets and intend to expand into two new markets and introduce more financial products in 2013.

Poland

David Parkinson Country Manager, Poland



David has 26 years of home credit experience and was appointed Country Manager of Czech-Slovakia in 2008 and Country Manager of Poland in 2010.

Our Polish business continued to perform very strongly and the progress made in this important market has been a major highlight of the year. We were particularly pleased to be awarded a Customer Friendly Company award for outstanding customer service as well as being recognised recently as one of Poland's best employers.

From a trading perspective, good growth in credit issued together with lower impairment helped deliver a profit of £62.2 million. There was a £10.3 million improvement in underlying profit offset by £4.2 million of higher ESR costs and £9.9 million as a result of weaker FX rates.

Credit issued grew by 11%. This was driven by a 4% increase in customers together with the introduction of higher value, longer-term loans for quality customers, supported by a targeted easing of credit controls.

Average net receivables increased by 8%. Revenue growth was also good at 7% despite the impact of higher ESR costs following the implementation of the CCD in Poland in December 2011. A further year-on-year impact of £10 million to £15 million is expected in 2013. Stable credit quality and an improved collections performance resulted in a 0.9 percentage point improvement in impairment as a percentage of revenue to 29.6%.

Finance costs reduced by £4.7 million as the business continued to de-gear due to strong cash generation. Agents' commission costs, which are variable in nature, continue to represent around 10% of revenue. Costs were managed tightly and the cost-income ratio was flat at 32.2% (2011 adjusted to remove the impact of a £4.1 million VAT refund) despite investing £4.6 million in growth related expenditure.

Looking ahead, we expect the Polish business to deliver further growth in customers and credit issued but higher ESRs will impact profit growth in 2013.

	2012 £M	2011 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	821	791	30	3.8	3.8
Credit issued	326.6	318.6	8.0	2.5	11.0
Average net receivables	235.7	236.8	(1.1)	(0.5)	8.3
Revenue	268.8	273.2	(4.4)	(1.6)	6.8
Impairment	(79.5)	(83.2)	3.7	4.4	(4.6)
	189.3	190.0	(0.7)	(0.4)	7.7
Finance costs	(10.1)	(14.8)	4.7	31.8	25.7
Agents' commission	(27.1)	(27.3)	0.2	0.7	(7.1)
Other costs	(89.9)	(81.9)	(8.0)	(9.8)	(11.3)
Profit before taxation	62.2	66.0	(3.8)	(5.8)	

Czech Republic and Slovakia

Russell Johnsen Country Manager, Czech Republic and Slovakia

Russell became Country Manager of Czech-Slovakia in 2012 having previously led the Romanian business. He has worked in home credit operations for 32 years.

Our business in Czech-Slovakia has been a consistent performer over recent years and is the Group's second largest profit contributor reporting £28.8 million in 2012. We were delighted that it was recognised publicly as the most ethical non-banking lender in the Czech Republic and one of the country's most responsible businesses. Slovakia is also leading the way on the introduction of discounted products to reward loyal customers, and a new, longer-term product was launched in both markets.



Credit issued is a key driver of growth. This accelerated to 12% in Q4 as the new management team focused on growth and credit controls were eased to capture more sales opportunities to quality customers. Underlying profit growth was relatively modest at £0.3 million due to increased impairment, the expected impact of higher ESR costs of £6.6 million and weaker FX rates of £2.7 million.

Customer numbers were at a similar level to 2011 and accelerating customer growth is a key objective for 2013. Average net receivables grew by 6% but revenue was flat due to the expected impact of higher ESR costs, which are charged against revenue. Impairment as a percentage of revenue increased due to the impact of credit easing as we seek faster growth. At 25.6% it has now moved into the bottom end of our target range.

Finance costs as a percentage of revenue increased by 1.0 percentage point to 5.3% due to a reduction in the business unit's equity to receivables ratio arising from the payment of intra-Group dividends. Agents' commission costs increased by 6% in line with growth in the business. Other costs were controlled very tightly and resulted in a 4% reduction on 2011 despite 7% growth in credit issued. As a result, the cost-income ratio reduced by 1.0 percentage point to 36.5%.

We believe that there is potential for stronger growth in Czech-Slovakia and we are developing a more growth-focused sales culture and improving engagement in order to achieve this.

	2012 £M	2011 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	383	385	(2)	(0.5)	(0.5)
Credit issued	206.6	209.5	(2.9)	(1.4)	6.8
Average net receivables	145.3	148.3	(3.0)	(2.0)	6.4
Revenue	133.4	144.8	(11.4)	(7.9)	-
Impairment	(34.2)	(30.2)	(4.0)	(13.2)	(23.5)
	99.2	114.6	(15.4)	(13.4)	(6.1)
Finance costs	(7.1)	(6.2)	(0.9)	(14.5)	(20.3)
Agents' commission	(14.8)	(15.2)	0.4	2.6	(5.7)
Other costs	(48.5)	(55.4)	6.9	12.5	4.3
Profit before taxation	28.8	37.8	(9.0)	(23.8)	

Hungary

Botond Szirmak Country Manager, Hungary

Botond joined the Group in 2002 as a Development Manager. He has worked in a variety of operational roles and was appointed Country Manager of Hungary in 2008.

Our Hungarian business delivered a very strong performance. Profit in 2012 was £10.1 million, which reflects underlying profit growth of £3.7 million partially offset by a £1.9 million adverse impact from weaker FX rates. Key to this result are the excellent employee engagement levels in our Hungarian business and we are very proud that it was awarded the best workplace in Hungary and, subsequently, the sixth best workplace across Central and Eastern Europe. This high level of employee engagement is the foundation of the very strong 2012 performance which delivered good growth in customers and credit issued together with excellent credit quality.



With 10% growth in customer numbers to 268,000, the business continued to make good progress towards its previous scale of over 300,000 customers. Very strong growth in credit issued of 21% reflects the increase in our customer base together with issuing larger loans to existing quality customers, supported by progressive credit easing. Growth in average net receivables and revenue were also strong at 19% and 17% respectively.

Hungary's customer portfolio continued to demonstrate excellent credit quality and our collections performance remains good. As planned, impairment as a percentage of revenue increased by 3.1 percentage points to 15.2%, reflecting our eased credit controls. It remains well below our target range of 25% to 30%.

Finance costs as a percentage of revenue were broadly in line with 2011. Agents' commission costs increased in line with the growth of the business. Other costs were controlled tightly and, as a result, the cost-income ratio improved significantly by 4.7 percentage points to 42.3%.

Overall, therefore, our business is performing well, consumer confidence is stable and we expect good growth to continue in 2013.

	2012 £M	2011 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	268	244	24	9.8	9.8
Credit issued	114.2	104.3	9.9	9.5	20.7
Average net receivables	76.6	71.6	5.0	7.0	18.8
Revenue	78.2	74.2	4.0	5.4	16.9
Impairment	(11.9)	(9.0)	(2.9)	(32.2)	(46.9)
	66.3	65.2	1.1	1.7	12.8
Finance costs	(8.7)	(8.6)	(0.1)	(1.2)	(11.5)
Agents' commission	(13.4)	(13.3)	(0.1)	(0.8)	(11.7)
Other costs	(34.1)	(35.0)	0.9	2.6	(4.6)
Profit before taxation	10.1	8.3	1.8	21.7	

Romania

Ivo Kalik Country Manager, Romania

Ivo joined the business in 1997 and was appointed Country Manager of Romania in 2012. He was previously Regional Managing Director of our Mexican operation.

Our business in Romania had a difficult year, set against a backdrop of continued challenging macroeconomic conditions, political instability and austerity measures that reduced household income and consumer confidence.

Lower than expected growth, together with higher than anticipated impairment and increased costs arising from infrastructure investment to support our growth plans, resulted in a £1.9 million reduction in profit to £2.2 million. Our performance in Q1 2012 was impacted significantly by higher impairment and all of the reduction in profit is attributable to this period.



Credit issued growth was 10% which was in line with customer growth of 8%. Growth was lower than planned due to challenging economic conditions impacting customer demand and the quality of our receivables book, and our decision to focus primarily on collections from Q2 for the remainder of the year following a difficult first quarter. Higher growth rates in 2011 meant that average net receivables increased by 15% and revenue grew at the slightly faster rate of 18%.

Collections performance was worse than 2011, particularly in Q1 2012, and this resulted in higher levels of impairment. As a result, impairment as a percentage of revenue deteriorated by 5.9 percentage points to 32.0%.

The increase in finance costs reflects the cost of additional funding to support growth. Agents' commission increased in line with growth in the business. Other costs increased by 13% due to the investment in infrastructure to support growth, nevertheless the cost-income ratio reduced by 1.7 percentage points to 43.7%.

As we enter 2013, Romania has a newly elected government in place, its currency has strengthened and consumer confidence has improved. As a result, we plan to move our focus progressively back towards growth and expect a much improved performance.

	2012 £M	2011 £M	Change £M	Change %	Change of CER %
Customer numbers (000s)	260	241	19	7.9	7.9
Credit issued	85.8	87.7	(1.9)	(2.2)	10.1
Average net receivables	52.0	51.1	0.9	1.8	14.5
Revenue	57.2	54.4	2.8	5.1	17.9
Impairment	(18.3)	(14.2)	(4.1)	(28.9)	(43.0)
	38.9	40.2	(1.3)	(3.2)	9.0
Finance costs	(6.4)	(5.6)	(0.8)	(14.3)	(28.0)
Agents' commission	(5.6)	(5.5)	(0.1)	(1.8)	(14.3)
Other costs	(24.7)	(25.0)	0.3	1.2	(12.8)
Profit before taxation	2.2	4.1	(1.9)	(46.3)	

Mexico

Robert Husband Country Manager, Mexico

Robert joined Provident Mexico in 2008 and has held positions of Finance Director and Chief Operating Officer. He was appointed Country Manager of Mexico in 2012.

The key objectives for the Mexican business in 2012 were to build on the improved operational performance delivered in 2011 and to increase revenue per customer by issuing larger loans to creditworthy customers; this is a key building block in our aim of delivering a profit of £33 per customer by 2015. The business performed well against these objectives in 2012, delivering strong growth in credit issued together with lower impairment through good operational management. This resulted in the Mexican business delivering a record profit of £4.9 million, an increase of £3.4 million compared to 2011, and this equates to a profit per customer of £7.



Customer numbers grew by 3% year-on-year to 683,000. Growth in credit issued at 25% was significantly higher than customer growth as we issued larger, longer-term loan offers to repeat customers who have demonstrated their ability to repay loans. It was also supported by the successful introduction of new, more relaxed credit rules which were rolled out in stages to 18 of Mexico's 54 branches during 2012. In January 2013 these new credit rules were implemented in a further six branches.

Average net receivables increased by 22%. Revenue growth was also very strong at 16% although slower than growth in average net receivables as a result of the shift in mix of credit issued towards longer-term loans that have a lower yield.

Improved field operations enabled continued good collections performance and, despite faster credit issued growth, impairment as a percentage of revenue improved by 1.9 percentage points to 28.3%.

Finance costs increased broadly in line with the growth in the size of the business. Agents' commission costs increased at a slightly faster rate than business growth due to additional collection incentives to high performing agents, which contributed to the reduction in impairment. Costs were controlled tightly resulting in a 3.4 percentage point improvement in the cost-income ratio to 46.4%.

We were also delighted to be recognised for the eighth consecutive year as a socially responsible company by the Mexican Centre of Philanthropy and the Alliance for Corporate Responsibility. This certification rewards organisations that are committed to the social development of the communities in which they operate as part of their corporate culture and business strategies.

	2012 £M	2011 £M	Change £M	Change %	Change at CER %
Customer numbers (000s)	683	662	21	3.2	3.2
Credit issued	148.9	124.4	24.5	19.7	25.1
Average net receivables	78.7	67.7	11.0	16.2	21.5
Revenue	114.1	102.9	11.2	10.9	15.7
Impairment	(32.3)	(31.1)	(1.2)	(3.9)	(9.1)
	81.8	71.8	10.0	13.9	18.6
Finance costs	(9.3)	(7.7)	(1.6)	(20.8)	(25.7)
Agents' commission	(14.0)	(11.6)	(2.4)	(20.7)	(26.1)
Other costs	(53.6)	(51.0)	(2.6)	(5.1)	(8.9)
Profit before taxation	4.9	1.5	3.4	226.7	

The profit before taxation in Mexico is analysed by region as follows:

	2012 £M	2011 £M	Change £M	Change %
Puebla	7.8	4.7	3.1	66.0
Guadalajara	9.1	7.5	1.6	21.3
Monterrey	(1.1)	(1.7)	0.6	35.3
Head office	(10.9)	(9.0)	(1.9)	(21.1)
Profit before taxation	4.9	1.5	3.4	226.7

The macroeconomic environment for Mexico is more robust than our European markets and consumer confidence improved throughout 2012. We believe the operational improvements that we have implemented, the controlled extension of our new credit rules in more branches and further geographic expansion with three new branches planned in 2013 will further increase revenue per customer and drive good customer growth. This will enable our Mexican business to make further good progress towards our updated target of £33 profit per customer.

Financial review

We delivered a strong trading performance and good growth in 2012. The increase in dividend and £25 million buyback demonstrates our commitment to improving capital efficiency.

We are very pleased with our performance in 2012 which has seen revenue growth accelerating from 7% in Q1 to 10% in Q4 at the same time as delivering stable impairment. Our focus on cost efficiency has also borne fruit as our cost-income ratio has dropped below 40% for the first time. Our balance sheet remains very strong with equity to receivables at 57.8% after returning £25 million of capital to shareholders. Return on capital employed remains very healthy at more than 20% despite the strength of our balance sheet. We were pleased to extend around 60% of our bank facilities in 2012 to 2015 and to diversify sources of funding further with bond issues in the Czech Republic in July 2012 and Hungary in January 2013. This bond funding was delivered at significantly lower margins than our core euro bond, which will help to set pricing points for its refinancing. Delivering lower cost bond funding is at the core of our financing strategy and would enable us to reduce our equity to receivables target which would unlock further value for our shareholders.

Key financial highlights

	2012	2011
Revenue (£M)	651.7	649.5
Profit before tax (£M) ¹	95.1	100.5
Adjusted earnings per share (pence) ²	27.6	28.6
Dividends (pence)	7.7	7.1
Cash generated from operations (£M)	98.2	82.7
Equity as a percentage of receivables	57.8%	58.5%
Return on equity ²	20.1%	22.7%

¹ Before exceptional items of £4.8 million in 2012.

² 2012 presented at an underlying 27% tax rate and before exceptional items in order to better present the underlying performance of the Group. 2011 presented at an underlying 28% tax rate, as the effective tax rate in 2011 was impacted by one-off adjustments to deferred tax arising from changes in legislation in Hungary.

- we delivered strong growth in underlying profit of £20.3 million;
- we propose a full year dividend of 7.7 pence, an increase of 9% reflecting the strong underlying performance;
- we reported strong cash generation, which funded a 13% increase in the receivables book;
- we extended and diversified our debt funding profile and we are now fully funded to May 2015; and
- we completed a £25 million share buyback programme.

2012 results

The Group reported a strong trading performance with 13% growth in credit issued and stable credit quality. Underlying profit increased by £20.3 million before the £25.7 million impact of higher ESRs and weaker FX rates. Pre-tax profit before exceptional items of £95.1 million compared to a profit of £100.5 million in 2011. Statutory profit before taxation was £90.3 million and includes an exceptional charge of £4.8 million. The exceptional costs primarily relate to a management restructuring exercise designed to strengthen the UK functional support team and refresh the country management teams.

“Our business model generates good margins and returns.”

The 2012 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 2012 these markets generated a pre-tax profit margin of 21.0% and return on equity of 27.3%. As Mexico and Romania develop, we expect them to have a similar margin structure and generate similar returns. The profit margin for the Group as a whole in 2012 was 14.6% and its return on equity was 20.1%.

	EPS ¹ (p)	Margin (%)	ROE ² (%)
Poland	18.0	23.1	32.5
Czech-Slovakia	8.3	21.6	23.9
Hungary	3.0	12.9	17.2
Central Europe	29.3	21.0	27.3
Central costs	(3.8)	-	-
Developing markets	2.1	4.1	6.9
Group	27.6	14.6	20.1

¹ Adjusted to an underlying tax rate of 27%.

² For this purpose equity has been calculated as 57.8% of receivables and tax has been allocated across the businesses at a constant rate of 27%.

Taxation

The taxation charge for the year on statutory pre-tax profit was £16.2 million (2011: £24.0 million) which equates to an effective rate of 17.9%. During the year, the Group refined its method for providing for uncertain tax positions to reflect the latest best estimate of probable future cash outflows and, as a result, reduced the opening provision by £8.4 million. The underlying taxation charge on pre-exceptional profit excluding this provision release was £25.7 million which represents an effective tax rate of 27.0%. The effective tax rate is expected to remain broadly at this level in 2013.



David Broadbent
Finance Director

Dividend

In accordance with the Group's progressive dividend policy and subject to shareholder approval, a final dividend of 4.5 pence per share will be payable which will bring the full year dividend to 7.7 pence per share, an increase of 9% (2011: 7.1 pence per share). The increased dividend reflects the strong underlying trading performance and cash and capital generative nature of the business model. The dividend will be paid on 3 May 2013 to shareholders on the register at the close of business on 22 March 2013. The shares will be marked ex-dividend on 20 March 2013.

Foreign exchange

The effective average FX rates in our markets were significantly weaker in 2012 than in 2011. The impact of this on profit was a reduction of £14.9 million with the largest single driver being Poland, which reflects its contribution to Group profit together with the volatility of the sterling to zloty exchange rate. In October, we announced the Board's decision to end the policy of hedging the rates at which currency profits are translated into sterling. This change reflects the fact that underlying currency cash flows are the main driver of shareholder value and the fact that currency hedges as previously executed do not protect the business against long-term exchange rate movements. The change in policy is also expected to reduce the overall treasury costs of the business.

The majority of the Group's net assets are denominated in our operating currencies and therefore their sterling value fluctuates with changes in FX 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 £11.7 million foreign exchange movement which has been credited to the foreign exchange reserve.

Cash flows

Our business model is cash and capital generative.

	2012 £M	2011 £M
Cash generated from operations before receivables growth	172.6	144.3
Receivables growth	(74.4)	(61.6)
Cash generated from operations	98.2	82.7
Established markets	89.6	78.1
Developing markets	8.6	4.6
Cash generated from operations	98.2	82.7

During the year the Group generated operating cash flows of £172.6 million (2011: £144.3 million) before funding a £74.4 million increase in net receivables (2011: £61.6 million). This strong cash flow meant that borrowings only increased by £28.1 million to £310.8 million, which compares with total available facilities of £470.3 million and gives headroom on facilities of £159.5 million. Gearing, calculated as borrowings divided by shareholders' equity, remains at 0.8 times (2011: 0.8 times).

Balance sheet and capital structure

A summary of the balance sheet is set out below:

	2012 £M	2011 £M
Receivables	650.3	560.4
Borrowings	(310.8)	(276.5)
Other net assets	36.3	43.8
Net assets	375.8	327.7
Equity to receivables	57.8%	58.5%

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

- we are well capitalised with shareholders' equity representing 57.8% of receivables, the equivalent of a bank's Tier 1 ratio;
- gearing* has reduced from 0.9 times to 0.8 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.

		2012	2011
Gearing*	Max 3.75	0.8	0.9
Interest cover	Min 2 times	3.3	3.4
Net worth*	Min £125 million	380.4	320.2
Receivables: borrowings	Min 1.1:1	2.1	2.0

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

Financial review continued

A core attribute of our business model is that we borrow long and lend short which enables us to maintain financial flexibility.

	Receivables %	Borrowings %
Less than one year	96.4	5.3
More than one year	3.6	94.7
Total	100.0	100.0

Receivables and provisioning

At the end of 2012 receivables were £650.3 million, which is £74.4 million (12.7%) higher than 2011 in constant currency terms and reflects the growth in the business. The average period of receivables outstanding was 5.4 months (2011: 4.9 months) with 96.4% of year end receivables due within one year (2011: 99.1%).

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.

Prudent provisioning

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;
- the trigger for an impairment provision is 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 2012 were £310.8 million, which is £28.1 million higher than 2011 at constant exchange rates. This compares with total facilities of £470.3 million, giving headroom on facilities of £159.5 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	17.3	–	–	17.3
Syndicated and bilateral term bank facilities	58.9	152.5	–	211.4
Bonds	–	238.4	3.2	241.6
	76.2	390.9	3.2	470.3
Borrowings				310.8
Headroom				159.5

The business is fully funded through to May 2015. 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, Czech crown and Romanian lei and mature principally in 2015. During 2012, over 60% of our syndicated and bilateral term facilities were extended through to 2015, the remaining term facilities (£79.0 million) mature in 2013 and 2014 (£58.9 million and £20.1 million respectively). 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.

In January 2013 the Group issued £11.2 million of five-year Hungarian forint denominated bonds under its EMTN programme at a fixed coupon of 11%. The Group now has local currency denominated bonds in all its European markets which reduces exposure to currency volatility. During the year, we also made progress towards our aim of reducing the cost of debt funding through issuing bonds at a lower cost than our EMTN programme. Both the Czech and Hungarian local currency bonds were priced respectively in local currency terms at around 250 to 450 basis points lower than the EMTN bond, and represent an important step in achieving this objective. The refinancing of the £130 million bank facilities was also secured with no change in margin.

“We operate a prudent, objective and centrally controlled impairment provisioning system.”

“We borrow long and lend short.”

Capital structure

In 2012 we announced that our target equity to receivables ratio was 55% reflecting an appropriate balance between capital efficiency and ensuring that the business has sufficient capital to withstand a severe recession. This target remains appropriate. As a result of our strong trading performance and the reduction of our required tax provisions, the equity to receivables ratio at the year-end was 57.8%. We therefore have £18 million of surplus capital, against our current equity to receivables target of 55%, to invest in growth opportunities. This follows the completion in November 2012 of a £25 million buyback programme for which 7,792,801 shares were purchased for cancellation at an average price of 318.6 pence per share.

Treasury risk management

Despite the recent improvement in the condition of global financial markets we think it is prudent to plan on the basis that we could experience volatility in financial markets within our planning horizon. Our Board-approved treasury policies which address the principal financial 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 fixed 75% of our currency and interest costs for 2013, and 25% for 2014.

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 2008-9 financial crisis, and our strong financial profile combined with 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 2013 and the forecasts for the four years to 31 December 2017 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 is sufficient to fund the planned growth of our existing operations and new markets until May 2015. 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

Principal risks and uncertainties

Effective management of risks 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 of our activities. Our challenge is to identify risks and develop effective management strategies and processes in order for us to embrace value adding opportunities in an informed and risk-calculated manner.

We identify the risks facing the business by risk category as shown below and ensure the specific risks are managed through the Group's governance and risk management frameworks.

Risk category	Definition	Risks	Description
Operational	The risk of unacceptable losses as a result of inadequate, or failures in the Group's, internal core processes, systems or people behaviours.	<ul style="list-style-type: none"> • Credit* • Safety* • People* • Service disruption* • Financial and performance reporting • Technology • Information security* • Business operations • Fraud 	<ul style="list-style-type: none"> Customers fail to repay Harm to our agents/people Quantity/calibre of people Recoverability of systems, processes and supply chains Failure of financial reporting systems Maintenance of effective technology Security of business and customer data Effective operation of business model Theft or fraud loss
Market conditions	The risk that the Group cannot identify, respond to, comply with or take advantage of external marketplace conditions.	<ul style="list-style-type: none"> • Regulatory* • Funding* • Interest rate* • Currency* • Counterparty* • Competition* • Taxation* • World economic environment* 	<ul style="list-style-type: none"> Compliance with laws and regulations Funding availability to meet business needs Market volatility impacting performance and asset values Loss of banking partner Adapting to competitive environment Changes in tax legislation Adapting to economic conditions
Business development	The risk that the Group's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of that strategy, both due to internal or external factors.	<ul style="list-style-type: none"> • New market and acquisition • Change management* • Product proposition 	<ul style="list-style-type: none"> Growth of our footprint Delivery of strategic initiatives Product and service offering
Stakeholder	The risk that key stakeholders take a negative view of the business either as a direct result of the Group's actions or its inability to effectively manage their perception of the Group.	<ul style="list-style-type: none"> • Reputation* • Customer service 	<ul style="list-style-type: none"> Reputational damage Customer service standards maintained

*Risks considered as being of current significance to the Group.

Risk assessments are performed quarterly, captured in a consistent reporting format and consolidated into country risk registers and then into the Group schedule of key risks. Country risk registers are reviewed by the Market Audit and Risk Committee (chaired by the Country Manager with the Group Head of Compliance and Risk in attendance) with the overall Group schedule of key risks reviewed by the Risk Advisory Group (chaired by the CEO and attended by other key members of the Group including the Chairman). On a bi-annual basis, the Risk Advisory Group submit

the Group schedule of key risks to the Group Audit and Risk Committee for review. As at the year-end, the Risk Advisory Group considered that there were fifteen risks of current significance to the Group which require ongoing focus (noted with asterisks in the table above). Eight of these risks are currently at a level of significance which requires awareness and monitoring at Board level and are, therefore, considered to be the principal risks and uncertainties facing the Group at this time. These principal risks and uncertainties are presented in the table opposite.

Key: ↑ Risk environment improving ↓ Risk environment worsening ↔ Risk environment stable

Operational risk	Relevance	Mitigation	Commentary
<p>Safety</p> <p>The risk of personal accident or assault for all of our agents and people.</p> <p>The risk that our people are put at risk of harm by allowing any potential assailant or thief to identify workers carrying or handling cash.</p> <p>Objective We aim to maintain adequate arrangements that reduce the risks to as low as is reasonably practicable.</p>	<p>A valuable element of our business model involves our agents and employees having interactions with our customers in their homes or travelling to numerous locations daily.</p> <p>Their safety is paramount to us and the Group strives to ensure that our agents and employees can carry out their work without risk of harm.</p>	<p>Group and Market Safety Committees and annual safety survey.</p> <p>Bi-annual risk mapping by agency including mitigation planning and field safety training.</p> <p>Annual management self-certification of safety compliance.</p> <p>Branch safety meetings held quarterly.</p> <p>Agreed risk assessment methodology, training and competence matrix and communication matrix in place.</p> <p>Training and competence matrix to deliver appropriate training and information to employees, agents and other contractors.</p>	<p style="text-align: center;">↔</p> <p>Lead Responsibility: Group Finance Director. During 2012 we have continued to make improvements in our safety management system which is modelled on international best practice. Accreditation against OHSAS 18001 has been achieved in Hungary and is underway in the UK. The other markets will be ready for certification during 2013.</p> <p>Safety continues to be a significant area of focus for the Group.</p>
<p>People</p> <p>The risk that the Group's strategy is impacted due to not having sufficient depth and quality of people or an inability to retain key employees.</p> <p>Objectives We will have sufficient depth of personnel to ensure we can meet our growth objectives.</p> <p>We will only grow our business at a rate that is consistent with the skills availability.</p>	<p>Our business model is focused around international growth, both in terms of complementary value-added diversification and growth of our existing operations into new markets.</p> <p>In order to achieve this growth we must ensure we continue to attract, retain, develop and reward the right people to drive our business forward.</p>	<p>People and organisational planning ('POP') process being rolled out across the Group.</p> <p>Group-wide personal development review process and continuous development through tools such as 360 degree feedback.</p> <p>Annual employee and agent engagement surveys and improvement plans.</p> <p>Group standard competency framework aligned to organisational strategy.</p>	<p style="text-align: center;">↑</p> <p>Lead Responsibility: Group HR Director. The UK restructure, to realign our teams to the strategy for growth, continues to strengthen our capabilities across all functions and further improve succession planning and development programmes.</p> <p>We continue to improve stability in our agent network with retention improving by 2 percentage points in 2012. Employee retention remains strong (at 80.3%) although it was slightly impacted as a result of our UK restructure.</p> <p>Our global engagement survey showed that employee and agent engagement across the Group has improved from 2011 with our Hungarian business achieving world class engagement levels and winning the Best Workplace award.</p> <p>We continue to drive forward further improvements and Botond Szirmak (our Hungarian Country Manager) has been appointed Head of Global Engagement.</p>
<p>Information security</p> <p>The risk that the Group suffers a financial or reputational loss due to the loss or theft of sensitive information.</p> <p>Objective We aim to maintain adequate arrangements and controls that reduce the risk of data loss to as low as is reasonably practicable.</p>	<p>Globally we have 2.4 million customers and we record, update and maintain data for each of them on a weekly basis.</p> <p>The availability of this data is essential to the effective operation of our business and the security of our customer information is extremely important.</p>	<p>Agreed standard operating procedures for handling, transmitting and storing information.</p> <p>Agreed risk assessment methodology.</p> <p>Formal training and information delivered to employees, agents and other contractors.</p> <p>Internal security audits checking risk assessment coverage and efficacy of mitigation and control plans.</p> <p>Group and market level governance committees that oversee our security arrangements.</p>	<p style="text-align: center;">↔</p> <p>Lead Responsibility: Group Finance Director. We have recently migrated our European data centre to a platform which has enhanced our data management, storage and security capabilities.</p> <p>Our IT strategy re-enforces this commitment to make continual improvements in our data security environment and includes a number of initiatives to create a more robust data environment.</p> <p>We are currently developing a Group-wide information security management system based on ISO 27001 that will provide the framework for further improvement.</p>

Principal risks and uncertainties continued

Market conditions risk	Relevance	Mitigation	Commentary
<p>Regulatory environment</p> <p>The Group suffers losses due to a failure to comply with current laws and regulations under which it operates or due to regulatory change.</p> <p>Objective We aim to ensure that effective arrangements are in place to enable us to comply with legal and regulatory obligations, and take assessed and fully informed commercial risks.</p>	<p>Following the global economic crisis the level of focus and scrutiny on financial services organisations has increased significantly.</p> <p>A number of new measures have been enacted across Europe and a number of further measures continue to be proposed.</p> <p>The Group must keep up to speed with regulatory developments to ensure it can remain competitive and provide value for our customers.</p>	<p>We have highly skilled and experienced legal teams at Group level and in each of our markets.</p> <p>Expert third party advisors are used where necessary.</p> <p>Strong relationships are maintained with regulators and other stakeholders.</p> <p>Co-ordinated legal and public affairs teams, in the UK and each market, monitor political, legislative and regulative developments.</p>	<p>↔</p> <p>Lead Responsibility: Group Legal Director and Company Secretary. Uncertainty remains within our markets, particularly in Poland following the collapse of a non-standard lender during 2012. Regulatory intervention from the European Union also continues.</p>
<p>Competition</p> <p>The risk that the Group suffers losses or fails to optimise profitable growth through not being aware of or responding to the competitive environment in market.</p> <p>Objective We aim to be vigilant in identifying and understanding competitive threats and responding appropriately.</p>	<p>In our Czech and Polish markets, digital adoption has enabled the entry of a number of low-scale fast-cash or 'payday' online lenders offering lower-value short-term loans.</p>	<p>Regular monitoring of competitors and their offerings within our markets.</p> <p>Regular surveys of customer views on our product offerings and channels to bring customer focused products to market.</p> <p>Diversification of product portfolio in response to changing customer needs.</p> <p>Development of digital teams in each market to deliver our marketing strategy and enhance our digital channels.</p>	<p>↓</p> <p>Lead Responsibility: Group Marketing Director. Competition from other home credit providers in our markets remains largely stable. There is evidence of a modest, yet growing presence from other non-bank or non-traditional lenders.</p> <p>In this context our home credit model continues to provide customers with a personalised, simple and adaptive source of credit. However we also recognise the importance of engaging with the changing needs of consumers, both within the credit arena and beyond in terms of complementary financial products, and continuing to build sustainable long-term relationships with our customers.</p>
<p>World economic environment</p> <p>The risk that the Group suffers financial loss as a result of a failure to identify and adapt to changing economic conditions adequately.</p> <p>Objective We aim to have business processes which allow us to respond to changes in economic conditions and optimise business performance.</p>	<p>Changes in economic conditions have a direct impact on our customers' ability to pay.</p>	<p>Treasury and Credit Committees review economic indicators.</p> <p>Daily monitoring of economic, political and national news briefings.</p> <p>Affordability checking, responsible lending practices and arrears management processes as part of our field operations.</p> <p>Strong, long-term customer relationships allow the development of knowledge of individual customer circumstances.</p>	<p>↔</p> <p>Lead Responsibility: Group Finance Director. Global economic uncertainty, particularly in Europe, continued throughout 2012:</p> <ul style="list-style-type: none"> the Mexican economy maintains a positive outlook; growth in the Polish economy is forecast to be lower in 2013; the Czech Republic and Slovak economies remain stable; and uncertainty continues to surround the Romanian and Hungarian economies despite improving consumer confidence.

Business development risk	Relevance	Mitigation	Commentary
<p>Change management</p> <p>The Group suffers losses or fails to optimise profitable growth due to managing change in an ineffective manner.</p> <p>Objective We aim to effectively manage the design, delivery and benefits realisation of major global change initiatives and deliver according to requirements, budgets and timescales.</p>	<p>The Group strategy for growth and longer term sustainable value will be achieved through the delivery of key strategic initiatives, led by our market Management Boards, which are scalable to achieve synergistic gains and efficiencies across the whole Group.</p>	<p>Executive Director and Country Manager prioritisation of key initiatives.</p> <p>Standard project management methodology principles defined across the Group.</p> <p>Market Boards' review of change initiatives.</p>	<p>↔</p> <p>Lead Responsibility: Group Finance Director. Key strategic initiatives which have been initiated in the year are:</p> <ul style="list-style-type: none"> • preferential pricing implemented in Slovakia and piloted in Poland and Hungary; • product range broadened; • IT strategy defined and initiated; and • reward and recognition reviewed and realigned to core strategy. <p>Key strategic initiatives which we intend to deliver in 2013 are:</p> <ul style="list-style-type: none"> • expand into two new markets; • redeveloped customer service centres; and • implement online Decision in Principle.
Stakeholder risk	Relevance	Mitigation	Commentary
<p>Reputation</p> <p>The Group suffers financial or reputational damage which compromises its ability to continue operating effectively due to its methods of operation, ill-informed comment or malpractice.</p> <p>Objective We aim to promote a positive reputation that will enable the Group to achieve its strategic aims.</p>	<p>Our customer experience and other key stakeholder engagement may be impacted through an impaired reputation affecting the Group's ability to deliver its strategy for growth as well as the Group's vision to make a difference in everyday life by offering simple and personalised financial solutions.</p>	<p>Our Group Reputational Management and Sustainability Committees meet twice per year, chaired by the CEO, to review reputational and sustainability MI and to set, monitor and maintain our reputational agenda.</p> <p>We have defined and articulated corporate values and ethics standards which are communicated throughout the organisation to employees, agents and other contractors.</p>	<p>↔</p> <p>Lead Responsibility: Group Corporate Affairs Director. We regularly utilise external reputational agencies to monitor the perception of the business in the wider public domain within each of our markets. This, together with our internal customer surveys, show that those who experience our simple and personalised financial solutions are highly satisfied.</p>

Our Board and Committees (as at 6 March 2013)

Our Board has extensive experience of operating public listed companies in international markets.



Christopher Rodrigues CBE
Chairman, age 63

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, Almeida Theatre Company Limited and The Windsor Leadership Trust, a non-executive director of Ladbrokes plc and an advisor to Monitise plc; he is on the Council, and a Trustee of the National Trust and is an executive committee member of the World Tourism and Travel Council.

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.



Gerard Ryan
Chief Executive Officer, age 48

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

Qualifications: Fellow of Chartered Accountants Ireland.

Previous appointments: 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.



David Broadbent
Finance Director, age 44

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 64

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

Qualifications: Graduated in Chemistry.

Other appointments: Chairman of Canal & River Trust, 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.

Committees

Executive Committee
Gerard Ryan (Chairman)
David Broadbent

Disclosure Committee
Gerard Ryan (Chairman)
David Broadbent
Ben Murphy



Edyta Kurek
Independent non-executive
director, age 46

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 Nordics, East Europe, Middle East and France.

Previous appointments: Positions in Oriflame Poland Sp. z o.o., UPC Poland Sp. z o.o. and General Manager of Herbalife Polska Sp. z o.o.



John Lorimer
Independent non-executive
director, age 60

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

Qualifications: Graduated in Commerce.

Other appointments: Non-executive director of Aberdeen New Dawn Investment Trust plc, The British United Provident Association Limited (BUPA) and The Benefits Express Limited.

Previous appointments: Senior positions with Standard Chartered Bank (including Group Head of Compliance and Regulatory Risk) and Citigroup, Chairman of CAF Bank Ltd and a director of Welsh National Opera Limited. John will leave the Board on 25 April 2013.



Richard Moat
Independent non-executive
director, age 58

Richard joined the Board of International Personal Finance plc as a non-executive director in July 2012.

Qualifications: Graduated in Law and is a Fellow of the Association of Chartered Certified Accountants.

Other appointments: Chief Financial Officer of Eircom Limited, an advisory board member of Tiaxa, Inc Chile, Trustee of the Peter Jones Foundation, and Chair of the ACCA Accountants for Business Global Forum.

Previous appointments: Deputy Chief Executive Officer and Chief Finance Officer of Everything Everywhere Limited, Managing Director of T-Mobile UK Limited, Chief Executive Officer of Orange Romania SA, Orange Denmark A/S and Orange Thailand Limited.



Nicholas Page
Independent non-executive
director, age 60

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 RSM Tenon Group plc; Chair of C.A.R.E. Europe 1 S.a.r.l. and C.A.R.E. Europe 2 S.a.r.l.

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 and Collins Stewart Hawkpoint plc.

Nomination Committee

Christopher Rodrigues (Chairman)
Gerard Ryan
Tony Hales
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
Richard Moat

Corporate Governance Statement

Good corporate governance underpins our work at International Personal Finance and provides the foundations upon which we operate.



Christopher Rodrigues
Chairman

The Board is committed to ensuring that the Group continues to operate, maintain and develop effective systems of governance both in the UK and overseas.

As we move forward with the implementation of our strategy for growth, it is more important than ever that we promote effective governance at all levels throughout the organisation.

As we expand our footprint and develop new products and channels, we need to ensure our people operate within an effective governance framework where decisions are made at the appropriate levels; where accountability is clear; and where our actions are mindful of the interests of all our stakeholders – whether they are shareholders, customers, suppliers or the communities in which we work.

As we enter new countries we will be welcoming new stakeholders to our business. We will look to embed high standards of governance into our new operations from the outset.

In addition, we are adapting the way we operate as the UK Corporate Governance Code ('the Governance Code') itself develops. The latest version of the Governance Code was published in September 2012 and although this applies to reporting periods beginning on or after 1 October 2012, we are already responding to the Governance Code's changing requirements.

Finally, I am pleased to report once again that the Company has complied with the 2010 Governance Code throughout 2012 and details of how we have done this and applied the principles of the Governance Code are set out in the Corporate Governance Statement which follows.

A handwritten signature in black ink, appearing to read 'Christopher Rodrigues', written in a cursive style.

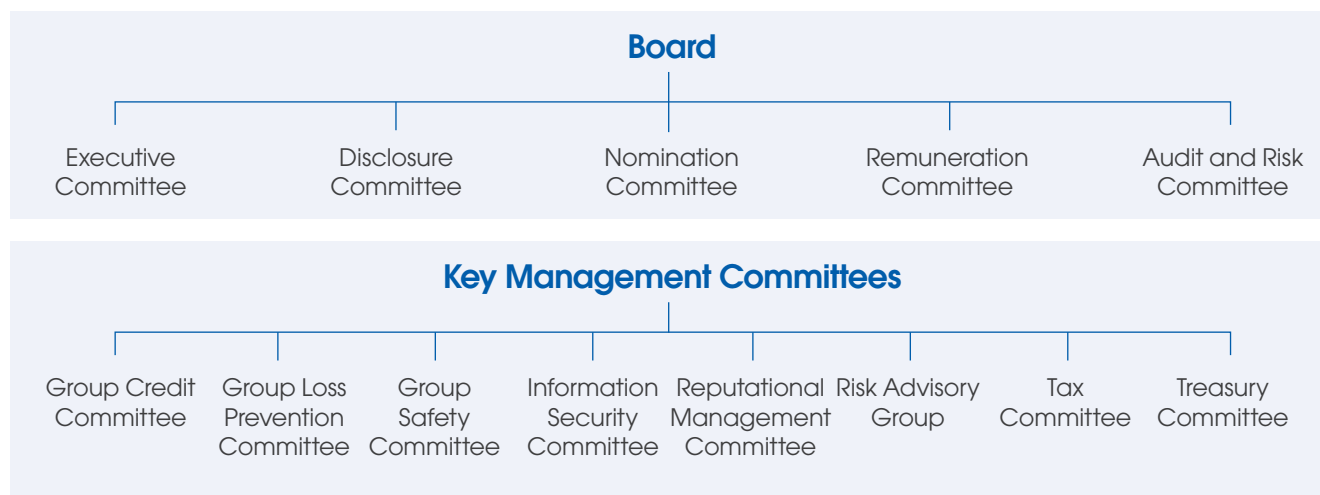
Christopher Rodrigues
Chairman

This constitutes the Company's Corporate Governance Statement and 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 31 December 2012. The Governance Code (June 2010) 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 2010 Governance Code throughout 2012.

Governance framework



The Board

Members and attendance

The Board leads and controls the Company. There were nine meetings on scheduled days and two additional meetings. The members and their attendance at board meetings in 2012 were as follows:

Name	Number of meetings	Number attended
Christopher Rodrigues (Chairman) ¹	11	10
David Broadbent (Finance Director)	11	11
Charles Gregson (non-executive director) ²	4	4
Tony Hales (non-executive director)	11	11
John Harnett (Chief Executive Officer to 31 March 2012) ³	4	3
Edyta Kurek (non-executive director) ⁴	11	8
John Lorimer (non-executive director) ⁵	11	9
Richard Moat (non-executive director) ⁶	5	5
Nicholas Page (non-executive director) ⁷	11	10
Gerard Ryan (Chief Executive Officer from 1 April 2012) ⁸	10	10

¹ Mr Rodrigues missed one meeting as he was abroad and unable to dial in due to technical difficulties.

² Mr Gregson left the Board on 9 May 2012 when his final term ended.

³ Mr Harnett missed one meeting due to another business commitment and left the Board on 31 March 2012.

⁴ Ms Kurek missed three meetings, two due to other business commitments and one due to a family accident.

⁵ Mr Lorimer missed two meetings due to other business commitments.

⁶ Mr Moat was appointed to the Board with effect from 1 July 2012.

⁷ Mr Page missed one of the two additional meetings due to another business commitment.

⁸ Mr Ryan was appointed to the Board on 17 January 2012 as Chief Executive Officer (Designate).

He became Chief Executive Officer following John Harnett leaving the Board on 31 March 2012.

Corporate Governance Statement continued

Matters reserved to the Board

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

- | |
|---|
| • Group strategy and risk appetite; |
| • approval of results; |
| • approval of budgets; |
| • approval of dividends; |
| • approval of major transactions; |
| • treasury policies; |
| • approval and amendment of a prospectus and approval and issuance of bonds and notes; |
| • Board appointments and appointments to Board Committees; |
| • 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 Annual General Meeting ('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 2012.

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 up until the end of his final term of office in May 2012, 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. 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:

2013	2014	2015	2016
<p>May John Lorimer</p> <p>First term ends</p>	<p>June Tony Hales Nicholas Page</p> <p>Second term ends</p>	<p>July Richard Moat</p> <p>First term ends</p>	<p>February Edyta Kurek</p> <p>Second term ends</p>

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 2013. 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 carried out board performance evaluation for 2012 with members of the Board completing an internal questionnaire, the results of which were collated by the Company Secretary. The Board formally considered diversity as part of this evaluation.

Board performance evaluation then formed part of the agenda for the January 2013 board meeting and this will be followed by a further facilitated session to agree action points to improve further the efficiency of board meetings. As short-term market volatility has eased, the Board has agreed to spend more time on strategic direction designed to build long-term competitive advantage addressing new channels and product innovation. The board also recognises that diversity in its widest sense is desirable.

Under the 2012 Governance Code, evaluation should be externally facilitated at least every three years. External evaluation was undertaken for 2010 by Professor Stuart Timperley, who carried out further follow-up meetings for 2011. The Company is, therefore, in compliance with the revised Code in this respect. Professor Timperley has no other connection with the Company.

Corporate Governance Statement continued

Training

The Company's policy is to provide appropriate training to directors, with their training and development needs regularly reviewed and agreed with the Chairman. Training takes into account each individual's qualifications and experience and includes environmental, social and governance training as appropriate. Training also covers generic and specific business topics and in 2012 included presentations for the Board on subjects such as legislative changes. The Board also collectively visited Mexico and Poland to enhance understanding of local operations and, in addition to regular executive director visits, individual non-executive directors visited other markets during the year including Poland and the Czech Republic. The Company Secretary maintains a register of training for each director which is reviewed by the Board. 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. 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 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

The composition of the Committee changed during 2012. At the start of the year the Committee consisted of John Harnett (Chairman), David Broadbent and Fred Forfar. Gerard Ryan joined the Committee on 17 January 2012 and replaced John Harnett as Chairman at the beginning of April. Fred Forfar left the Committee, on leaving the Company, in May 2012. 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 2012 to process a wide range of matters, often of a technical nature.

Report on the Disclosure Committee

The composition of the Committee changed during 2012. At the start of the year the Committee consisted of John Harnett (Chairman), David Broadbent and Rosamond Marshall Smith. Gerard Ryan replaced John Harnett on the Committee on 1 April 2012, becoming its Chairman, and Ben Murphy replaced Rosamond Marshall Smith on the Committee on 20 July 2012. 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 six times in 2012, 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 2012 were as follows:

Name	Number of meetings	Number attended
Christopher Rodrigues (Chairman)	2	2
Tony Hales	2	2
John Harnett ¹	1	1
Edyta Kurek ²	2	1
John Lorimer	2	2
Nicholas Page	2	2
Gerard Ryan ³	1	1

¹ Mr Harnett left the Committee on 31 March 2012.

² Ms Kurek missed one meeting due to a family accident.

³ Mr Ryan was appointed to the Committee on 1 April 2012.

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 2012

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 Richard Moat as a non-executive director on 1 July 2012. This included agreement of the candidate specification, the appointment of search consultants, consideration of candidates and recommendation of the favoured candidate to the Board.

The Committee 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 2012 were as follows:

Name	Number of meetings	Number attended
Tony Hales (Chairman)	9	9
John Lorimer ¹	9	8
Nicholas Page	9	9

¹ Mr Lorimer was absent from one meeting due to other business commitments.

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.

Corporate Governance Statement continued

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.

Report on the Audit and Risk Committee

Members and attendance

The members and their attendance at Committee meetings in 2012 were as follows:

Name	Number of meetings	Number attended
Nicholas Page (Chairman)	5	5
Tony Hales ¹	5	4
John Lorimer	5	5
Richard Moat ²	2	2

¹ Mr Hales missed one meeting due to other business commitments.

² Mr Moat was appointed to the Committee on 25 September 2012.

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 are invited on an ad hoc basis to 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 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 judgments 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.

The terms of reference of the Committee were updated in December 2012 primarily to incorporate changes to the Governance Code (September 2012). These now include the duty, where requested by the Board, to provide advice on whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Board did not request this advice for 2012 but the Committee now has the authority to provide this in the future.

Overview of the year

In 2012, the Committee focused its oversight on the effectiveness of the Group's systems of internal control and the identification, evaluation and management of the principal risks and uncertainties it faces. The Committee invited the Board as a whole to attend meetings focused on risk and provided open, honest and effective challenge to executive management to ensure, for example, that the Group's approach to risk was appropriate and an effective control environment was in place.

Further development of the Group's overall governance framework continued in 2012, and activities carried out as part of the 2012 audit plan reviewed the effectiveness of this groundwork and reviewed the effectiveness of the overall system of internal controls as well as looking at key areas of interest to the Group, including sustainability, data protection, responsible lending and regulatory compliance with findings reported back to, and discussed with, the Committee.

Members of the Committee ensured they were well-versed in key areas of the business and representatives from both the UK and overseas were invited to attend and present at a number of the Committee's meetings. Presentations covered collections and debt recovery, reputational research and the results of PricewaterhouseCoopers ('PwC') audit report on sustainability.

Work in 2012

Each year two of the meetings 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 function operating under the direction of the Head of Compliance and Risk. Internal audit functions exist in all the businesses with the focus of their work being centred on the assessment of core controls in both the field operations and the head office environments along with a number of thematic audits covering areas of special interest. The key area of work of the in-house internal audit function related to reviewing the existence, effectiveness and operation of the core controls across the business as well as performing thematic work of special interest. In addition, PwC performs internal audits where specialist knowledge is required. During 2012 the following reviews were carried out by the co-sourced internal audit function:

Internal Audits

- | | |
|---|--|
| <ul style="list-style-type: none"> • a money transfer and optionality review; • a review of the practices to monitor and manage agent and operational management turnover; • a review of the practices to monitor and manage regulatory compliance; • core control reviews; | <ul style="list-style-type: none"> • a review of the practices to monitor and manage responsible lending practices; • a review of Group sustainability practices; • a data protection review; • an IT global strategy review; and • a technical data transfer review. |
|---|--|

During 2012 the Committee also:

- reviewed an internal audit activity report at each scheduled audit-focused meeting and considered a number of reports from the internal audit functions on specific areas of the business;
- considered a report by Deloitte on the results of its audit work (February) and the financial information in the half-year report (July);
- received a presentation from Deloitte on the audit strategy for the 2012 audit and agreed this (December);
- agreed the internal audit plan for 2013 – 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 and uncertainties facing the Group, which are shown on pages 32 to 35, and plans and measures to mitigate the impact of these risks;
- received presentations on different areas of the business from senior managers; the topics included the development and strengthening of the Group's overall governance framework and refresh of its corporate policies, Group corporate affairs, collections and arrears management, non-financial data assurance, and information security; and
- considered the internal controls/risks and reported to the Board.

Independence of auditors

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.

Corporate Governance Statement continued

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 2012 are set out in note 4 of the notes to the Financial Statements.

The non-audit services carried out by Deloitte in 2012 were as follows:

Work carried out	Fee \$000
Taxation compliance services	12
Other assurance services	57
Total	69

Appointment of auditors

It is the Company's policy at least once every ten years, or more often at the discretion of the Committee, to undertake a formal tendering exercise of the audit contract. The purpose of the tender is to benchmark the quality and effectiveness of the services provided by the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective external audit. The last tender concluded in mid-March 2011 and Deloitte was appointed auditor with effect from 11 May 2011. There were no contractual obligations that restricted the Committee's choice of auditor.

At its February 2013 meeting, the Committee recommended the reappointment of Deloitte to the Board. A resolution to reappoint Deloitte as auditor will be proposed at the forthcoming AGM.

Internal control and risk management

Risk management process

Whilst the Board is responsible for the Group's system of internal control, it has delegated to the Audit Committee the review of the controls and their 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. More recently the Board has approved an updated statement of principal risks and uncertainties.

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.

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

Review of effectiveness

In accordance with the Guidance on Audit Committees issued by the FRC and last updated in September 2012, the Committee on behalf of 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 2012. The process for identifying, evaluating and managing the significant risks faced by the Group was in place throughout 2012 and up to 6 March 2013. 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. The Committee has also undertaken a review of its own effectiveness and concluded that it is effective.

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

During the year, the Company and its subsidiaries made donations of £94,000 for (UK) charitable purposes. Community investment across the Group totalled £891,000 in cash, employee time, management costs and in-kind contributions to charitable and community investment organisations. A further £74,000 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 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 Reputational Management 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 2012. 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.

Corporate Governance Statement continued

There is a range of appropriate corporate standards, policies and governance structures covering all operations.

In terms of employment, the Group is an equal opportunity employer and it is the Group's policy that no job applicant, member of staff or agent will receive less favourable treatment because of race, colour, nationality, ethnic or other national origin, sex, sexual orientation, marital status, age, disability or religion. The purpose of this policy is to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities.

As at 31 December 2012 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	8
Senior management level	27
Middle management level	30
Junior management level	37
Group as a whole	50

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 and a Group Loss Prevention Committee. These Committees report 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.

Community investment and environmental data are verified externally. The environmental management system is also subject to an annual independent internal audit against the requirements of ISO 14001.

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 reviews incentives from a risk perspective.

In 2012, the executive directors were given specific objectives relating to ESG issues for the purposes of the annual bonus scheme. 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 2012, there were 249,425,087 ordinary shares of 10 pence each in issue. No shares were issued during the year. 7,792,801 ordinary shares, with a nominal value of £779,280 representing 3.03% of the Company's called up share capital, were bought back and cancelled during 2012. The total consideration paid under the buyback programme, excluding costs, was £24,826,100. 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.

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 2012, the trustee held 3,244,706 shares in the Company. The trust waives its dividend entitlement and abstains from voting the shares at general meetings.

Agreements on change of control

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; Czech crown 100 million issued in July 2012 with a four-year term and a 9.0% coupon; Czech crown 280 million issued in July 2012 with a three-year term and an 8.5% coupon; and, subsequent to the 2012 year end, Hungarian forint 4 billion issued in January 2013 with a five-year term and an 11.0% 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.

Corporate Governance Statement continued

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

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

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

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

Responsibility statement

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

It is given by each of the directors: namely, Christopher Rodrigues, Chairman; Gerard Ryan, Chief Executive Officer; David Broadbent, Finance Director; Tony Hales, non-executive director; Edyta Kurek, non-executive director; John Lorimer, non-executive director; Richard Moat, 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 IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; 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 2012, 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 2012	Number of shares at 31 December 2011
Christopher Rodrigues	218,562	218,562
David Broadbent	18,036	18,036
Tony Hales	25,000	25,000
Edyta Kurek	-	-
John Lorimer	28,727	18,727
Richard Moat	-	-
Nicholas Page	50,674	50,674
Gerard Ryan	200,000	-

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

Name	Euro Notes at 31 December 2012	Euro Notes at 31 December 2011
John Lorimer	-	€194,000
Nicholas Page	€400,000	€400,000

There were no changes in these interests between 31 December 2012 and 1 March 2013.

Details of awards of nil-cost and other options to directors are set out in the sections on the Performance Share Plan ('PSP'), the Approved Company Share Option Plan, the Deferred Share Plan ('DSP') 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 2012 or at any time up to 6 March 2013 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 2012 and up to 6 March 2013.

Authority to allot shares

As at 31 December 2012, 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.

Other Information continued

Equity incentive schemes

The Company currently operates four equity incentive schemes. Details of individual grants to directors made in 2012 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 2012 are as follows:

Scheme	Date of grant	Number of shares	Exercise price (if any)	Normal exercise/vesting date
CSOP	02 Mar 2012	36,435	247p	02 Mar 2015 – 01 Mar 2022 ¹
CSOP	08 Aug 2012	29,556	305p	08 Aug 2015 – 07 Aug 2022 ¹
CSOP	12 Nov 2012	49,446	364p	12 Nov 2015 – 11 Nov 2022 ¹
Deferred Share Plan	27 Mar 2012	662,874	–	27 Mar 2015 – 26 Mar 2022
Performance Share Plan	02 Mar 2012	308,714	–	02 Mar 2015 – 01 Mar 2022 ¹
Performance Share Plan	08 Aug 2012	1,420,336	–	08 Aug 2015 – 07 Aug 2022 ¹
Performance Share Plan	12 Nov 2012	38,025	–	12 Nov 2015 – 11 Nov 2022 ¹
SAYE Scheme	29 Mar 2012	109,257	198p	01 Jun 2015 – 30 Nov 2019 ²
SAYE Scheme	04 Sept 2012	85,881	237p	01 Nov 2015 – 30 Apr 2020 ²

Details of outstanding awards are as follows:

Scheme	Awards outstanding at 31 December 2011	Awards lapsed in 2012	Awards exercised/ vested in 2012	Awards outstanding at 31 December 2012	Exercise price (if any)	Normal exercise/ vesting date	Awards exercised/ vested from 1 January to 1 March 2013
CSOP	604,520	(14,416)	–	705,541	208p – 364p	23 Jul 2013 – 11 Nov 2022 ¹	–
Deferred Share Plan	577,486	–	–	1,240,360	–	24 Mar 2014 – 26 Mar 2022	–
Performance Share Plan	4,138,743	(337,181)	(162,226)	5,406,411	–	23 Jul 2013 – 11 Nov 2022 ¹	–
SAYE Scheme	584,832	(61,439)	(231,783)	486,748	112p – 266p	01 Jun 2011 – 30 Apr 2020 ²	17,692

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

² Vesting dates vary depending on whether the employee chooses 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 24 August 2013. Any ordinary shares so purchased could be cancelled or held in treasury. During 2012 the Company purchased 7,792,801 ordinary shares pursuant to this authority. These were subsequently cancelled. A further authority for the Company to purchase its own shares will be sought from shareholders at the AGM.

Interests in voting rights

As at 31 December 2012, 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 ¹	Nature of holding
Standard Life Investments Ltd	31,144,450	12.49	Direct/Indirect
Norges Bank	12,662,221	5.03	Direct
J.P. Morgan Asset Management	12,887,361	5.01	Indirect
Marathon Asset Management LLP	12,841,168	5.01	Indirect
FMR LLC	12,625,113	4.97	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
Investec Asset Management Ltd	8,995,482	3.50	Indirect
Oppenheimer Funds Inc/Baring Asset Management Limited	7,769,836	3.02	Indirect
Legal & General Group Plc	7,713,256	3.00	Direct

¹ Based on the Company's issued share capital at notification.

Between 1 January and 1 March 2013, 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	32,994,581	13.23	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 2012. The average number of days' credit taken by the Group during the year was 17 days (2011: 14 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 repayments collected.

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, 25 April 2013 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 21 March 2013.

Approved by the Board on 6 March 2013.

Ben Murphy

Company Secretary
6 March 2013

A statement to shareholders from the Chairman of the Remuneration Committee

I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2012, which has been prepared by the Remuneration Committee and approved by the Board.



Tony Hales
Chairman of the Remuneration Committee

The UK Government Department of Business Innovation & Skills ('BIS') is currently proposing changes to the structure and contents of Directors' Remuneration Reports ('DRRs'). The Company has participated in the second project of the Financial Reporting Lab concerning the disclosure requirements. The Committee has decided to adopt the majority of these changes early and as such this report is divided into a forward-looking policy section which will detail IPF's remuneration policies and links to strategy, a backward-looking Implementation Report, which will focus on the remuneration arrangements and outcomes for the year under review, and a third section containing information required this year under the existing regulations.

There was a change in CEO during the year. The Committee wanted to ensure a smooth transition of leadership at the top of the Company. We were pleased to secure Gerard Ryan, who moved into the role smoothly and a little earlier than anticipated at the start of the process. John Harnett gave excellent support to make the transition particularly seamless and effective.

The main work of the Committee this year has involved a review of incentives for executive directors and senior executives, focusing in particular on the long-term elements. The objective has been to put in place a remuneration framework that will focus the key executives on driving the Company strategy over the short, medium and long-term which in turn will drive performance for shareholders.

Following a review of existing arrangements, which included feedback from senior executives, it was felt that the absolute total shareholder return ('TSR') measure in the Performance Share Plan ('PSP') and Deferred Share Plan ('DSP') matching shares should be complemented with the key drivers of TSR to provide a more motivational incentive for executives whilst maintaining shareholder alignment. The Committee believes a sensible balance is for one third of long-term incentive awards to vest on each of three measures; TSR, earnings per share ('EPS') and growth in revenue net of impairment.

To reflect the Committee's desire to ensure that executive directors are incentivised sufficiently to deliver long-term, sustainable growth and that the balance between fixed and variable elements of remuneration is at the right level, the normal maximum award size under the PSP will be increased to 125% (from 100%). Following consultation with our major institutional shareholders in the context of this change, the proposed targets for maximum vesting have been increased and the vesting level for threshold performance has been reduced to 25% for 2013 onwards.

The Committee has introduced measures to enable clawback of vested PSP shares in circumstances of serious financial misstatement or misconduct. The existing clawback provisions in relation to matching shares under the DSP have also been strengthened, recognising shareholder expectation for clawback to be available in these circumstances.

The Committee believes the amendments to incentives, including changes to leaver provisions described in the notice of AGM, will better support achievement of the Company's growth ambitions and provide strong alignment with shareholder interests. These changes and the Committee's rationale will be discussed in more detail in the policy section of the report.

A handwritten signature in blue ink that reads "Tony Hales".

Tony Hales
Chairman of the Remuneration Committee

Directors' Remuneration Report

Compliance statement

This report covers the reporting period from 1 January 2012 to 31 December 2012 and provides details of the Remuneration Committee and remuneration policy for the Company.

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, an advisory resolution to approve this report will be proposed at the annual general meeting ('AGM') of the Company to be held on 25 April 2013. The detail in this report sets out how the remuneration principles have been applied in 2012.

We support fully the focus on transparency in the new disclosure regulations for UK listed companies proposed by BIS, which are due to take effect from October 2013. The Company has, therefore, decided to structure the 2012 report to incorporate voluntarily as many of the proposed features as practicable this year.

Policy section

Key principles of the remuneration policy

The Committee is committed to establishing an appropriate, open and transparent remuneration policy, as this is key to driving business performance and aligning the interests of senior management and shareholders. The policy applied by the Committee reflects 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.

In setting the policy and making remuneration decisions, the Committee takes into account pay and conditions elsewhere in the Group as well as shareholder views. The remuneration policy is 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 sector profile;
- where performance has been demonstrated at a consistently high level, total remuneration above market median will be appropriate to 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.

Directors' Remuneration Report continued

Future policy table

This section of our report describes the key components of the remuneration arrangements for executive directors and non-executive directors for 2013 onwards.

Purpose	Operation	Opportunity and performance metrics
<p>Base salary To attract and retain talent by setting base salaries at market-competitive levels</p>	<p>Salaries are reviewed annually, with any increase applying from 1 April</p> <p>Salary levels/increases take account of:</p> <ul style="list-style-type: none"> • scope and responsibility of the position; • experience and performance of the individual in the role; • market pay levels; and • general increases awarded across the Group. 	<p>Salary is set at a level which the Committee considers appropriate, taking into consideration the factors listed opposite. For 2013, the following increases will apply:</p> <ul style="list-style-type: none"> • Gerard Ryan: 3% (revised salary of £463,500) • David Broadbent: 3% (revised salary of £319,300)
<p>Pension To provide retirement benefits</p>	<p>The Company operates a stakeholder scheme; at the discretion of the Committee, part may be paid as a cash allowance</p> <p>The Company has closed its defined benefit scheme to new members. David Broadbent is a deferred member</p>	<p>Company contribution is 20% of base salary</p>
<p>Other benefits To provide market-competitive benefits</p>	<p>Includes:</p> <ul style="list-style-type: none"> • life assurance of 4x salary; • car allowance; • long-term disability cover; • private medical cover for executive director and immediate family; and • annual medical. <p>All benefits are non-pensionable</p>	<p>The standard benefit package amounts to:</p> <ul style="list-style-type: none"> • Gerard Ryan: £26,517 • David Broadbent: £23,727
<p>Annual bonus To motivate and reward sustainable profit growth and the achievement of specific personal objectives linked to the Company's strategy</p>	<p>One-year financial and personal objectives are agreed in advance by the Committee</p> <p>At the end of the year, the Committee determines the extent to which these have been achieved and determines the appropriate payout</p> <p>There are provisions for clawback in the event of a restatement or material misjudgment of performance</p>	<p>Maximum opportunity: 100% of salary</p> <p>Payable by reference to pre-tax profit relative to budget and achievement of individual performance objectives, provided a minimum profit target is achieved. Personal objectives for 2013 are linked to achievement of strategy for growth, as outlined on page 12. For delivering threshold profit, maximum payout will be 25% of salary. The 'on target' bonus payout is maximum 80% of salary. If the stretch target is achieved, the maximum payout is 100% of salary</p> <p>Two-thirds of the bonus is deferred into shares pursuant to the DSP, which vest after three years</p>

Purpose	Operation	Opportunity and performance metrics																				
<p>Long-term incentive plans (LTIP)</p> <p>To motivate and reward longer-term performance, and support shareholder alignment through incentivising absolute shareholder value-creation</p>	<p>PSP and Approved Company Share Option Plan (HMRC approved) ('CSOP')</p> <p>Executive directors and senior management participate in the PSP. Grants are made annually to eligible employees at the discretion of the Committee. Part of the awards made to UK-based employees are under the CSOP</p> <p>Awards, generally made as nil-cost options over a specific number of shares, vest after three years with vesting determined by reference to challenging performance targets, subject to performance and continued employment</p> <p>The PSP has provisions for clawback in the event of restatement of the Company's Financial Statements or a material misjudgment of performance</p>	<p>Normal maximum opportunity 125% of salary. In exceptional circumstances, this may be increased to 150% of salary</p> <p>A third of awards vest by reference to growth in absolute TSR (30% growth for minimum vesting (25%); 60% growth for full vesting; straight-line vesting in between), subject to a Committee-operated discretionary underpin. TSR will be averaged over six months</p> <p>EPS and growth in revenue net of impairment have been introduced as additional measures (one-third weighting on each measure) to provide a more motivational incentive for executives whilst maintaining shareholder alignment. The performance conditions going forwards will be:</p> <table border="1"> <thead> <tr> <th></th> <th>Absolute TSR</th> <th>Cumulative EPS growth</th> <th>Growth in revenue less impairment</th> </tr> </thead> <tbody> <tr> <td>Weighting</td> <td>1/3</td> <td>1/3</td> <td>1/3</td> </tr> <tr> <td>Vested at threshold</td> <td>25%</td> <td>25%</td> <td>25%</td> </tr> <tr> <td>Threshold</td> <td>30% over 3 years</td> <td>6% p.a.</td> <td>5% p.a.</td> </tr> <tr> <td>Stretch (100% vesting)</td> <td>60% over 3 years</td> <td>15% p.a.</td> <td>12% p.a.</td> </tr> </tbody> </table>		Absolute TSR	Cumulative EPS growth	Growth in revenue less impairment	Weighting	1/3	1/3	1/3	Vested at threshold	25%	25%	25%	Threshold	30% over 3 years	6% p.a.	5% p.a.	Stretch (100% vesting)	60% over 3 years	15% p.a.	12% p.a.
	Absolute TSR	Cumulative EPS growth	Growth in revenue less impairment																			
Weighting	1/3	1/3	1/3																			
Vested at threshold	25%	25%	25%																			
Threshold	30% over 3 years	6% p.a.	5% p.a.																			
Stretch (100% vesting)	60% over 3 years	15% p.a.	12% p.a.																			
	<p>Deferred Share Plan (DSP)</p> <p>Holders of deferred bonus share awards are eligible to receive matching shares which vest after three years based on performance and continued employment</p> <p>The same clawback provisions apply to matching shares as to PSP awards</p>	<p>Maximum opportunity: one-for-one match on awarded shares (two-thirds of bonus earned). This is equivalent to up to 67% of salary for executive directors</p> <p>Matching shares vest on the same basis as for the PSP. The same changes to performance conditions which have been introduced to the PSP will also apply to the matching shares going forward</p>																				
<p>Executive shareholding policy</p> <p>To support shareholder alignment by encouraging our directors and senior managers to align with shareholders</p>	<p>Directors and senior managers are expected to acquire a beneficial shareholding based on seniority. 50% of vesting incentives after tax must be retained until this guideline is met</p>	<p>CEO: 250,000 shares Other executive directors: 150,000 shares Senior Management Group: 40,000 shares Chairman: 45,000 shares Non-executive directors: 15,000 shares</p>																				
<p>Fees</p> <p>Sole element of non-executive director remuneration</p>	<p>The Chairman and non-executive directors' fees are determined by the Board, taking into account the time commitment, responsibilities, and the skills and experience required</p>	<p>Chairman: £170,000 Non-executive director base fee: £50,000 Senior Independent Director/ Remuneration Committee Chairman: £20,000 Audit Committee Chairman: £15,000</p>																				

Directors' Remuneration Report continued

Details of directors' service contracts

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

Gerard Ryan has a service agreement dated 17 January 2012, when he became CEO (Designate). He became CEO following John Harnett leaving the Board on 31 March 2012. David Broadbent has a service agreement dated 21 June 2007, as varied on 11 December 2009 and in December 2010.

Each of these service agreements is terminable upon one year's notice from the relevant director or the Company. The Company may terminate employment by making a payment in lieu of notice equivalent to the value of base salary and contractual benefits in respect of the notice period. 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.

John Harnett was CEO until 31 March 2012. Up to that point, he had a service agreement dated 19 June 2007, as varied on 22 October 2008 and 11 December 2009.

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 had a letter of appointment dated 12 June 2007 (as amended by letters dated 12 May 2010 and 11 May 2011) and was appointed until 9 May 2012. He stood down at the 2012 AGM. 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 have been appointed until 30 June 2013. Edyta Kurek has a letter of appointment dated 15 February 2010 (as amended by a letter dated 28 February 2013) and has been appointed until 28 February 2016. John Lorimer has a letter of appointment dated 12 May 2010 and has been appointed until 31 May 2013. Richard Moat has a letter of appointment dated 25 June 2012 and has been appointed until 30 June 2015.

Election of directors

At the AGM, Richard Moat will be standing for election and all the remaining directors, with the exception of John Lorimer who is leaving the Board, will be offering themselves for re-election.

Termination payments

The Company's policy is to limit severance payments on termination to pre-established contractual arrangements. In the event that the employment of an executive director is terminated, any compensation payable will be determined having regard to the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

Under normal circumstances, good leavers who do not serve notice are eligible to receive termination payments in lieu of notice based on base salary and contractual benefits. The notice period for both executive directors is one year.

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

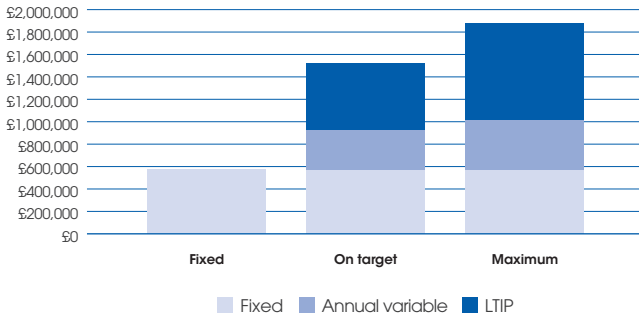
In the event an executive leaves for reasons of death, injury, disability, change of control of the Company, or any other reason which the Committee in its absolute discretion permits, any outstanding DSP matching shares and PSP awards will normally be pro-rated for time and performance. At the AGM, the Committee will be asking shareholders to approve an amendment to the rules to allow discretion to permit early vesting/ exercising of awards in certain circumstances.

For all other leavers, outstanding PSP awards and DSP matching shares will lapse. The Committee retains discretion to alter these provisions (as permitted by the relevant Plan Rules) on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and participants.

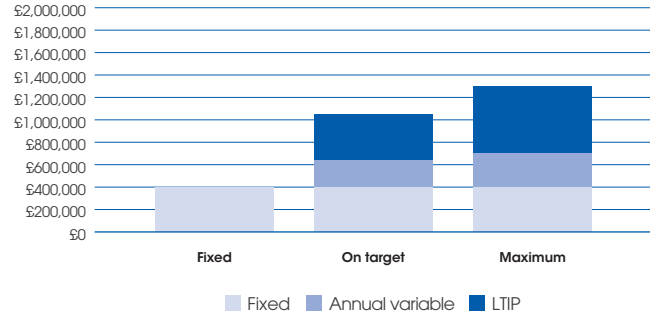
Pay-for-performance: scenario analysis

The following charts show the potential split between the different elements of the executive directors' remuneration under three different performance scenarios: 'Fixed', 'On target' and 'Maximum'.

CEO information



FD information

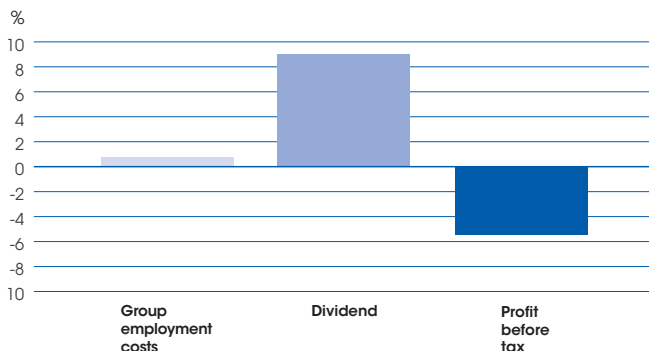


In developing the scenarios, the following assumptions have been made:

Fixed	<p>Consists of base salary, benefits and pension</p> <p>Base salary is latest known salary</p> <p>Benefits as per 'other benefits' on page 56</p> <p>Pension measured by applying cash in lieu against latest known salary</p>
On target	<p>Based on what a director would receive if performance was in line with target</p> <ul style="list-style-type: none"> • Annual variable – 80% of base salary; 1/3 delivered as cash, 2/3 delivered as deferred shares • LTIP – PSP plus matching shares awards, measured at face value: <ul style="list-style-type: none"> - PSP – 125% of base salary awarded, midpoint of performance conditions achieved, 62.5% of award vests (based on threshold of 25% and maximum of 100%). - Matching shares – one matching share for each DSP share awarded, percentage vesting as per PSP
Maximum	<p>Based on what a director would receive if all variable elements are paid in full</p> <ul style="list-style-type: none"> • Annual variable – 100% of base salary; 1/3 delivered as cash, 2/3 delivered as deferred shares • LTIP – PSP plus matching shares awards, measured at face value: <ul style="list-style-type: none"> - PSP – 125% of base salary awarded, midpoint of performance conditions achieved, 62.5% of award vests (based on threshold of 25% and maximum of 100%). - Matching shares – one matching share for each DSP share awarded, percentage vesting as per PSP

Distribution statement

The table below shows the percentage change in profit before tax, full year dividend, and group employment costs from the financial year ended 31 December 2011 to the financial year ended 31 December 2012.



Directors' Remuneration Report continued

Considerations of conditions elsewhere in the Group

In making remuneration decisions, the Committee also considers the general increases in base salaries taking place within the Group. While the Company does not consult directly with employees as part of the process of reviewing executive pay, the Committee does receive and take account of employee engagement results as part of their overall assessment of executive performance. The Company regards its measure of engagement an effective barometer of employee opinion and in the most recent survey an improvement in overall engagement was recorded, with Hungary in particular reporting world class levels of engagement, (using Gallup Q¹²®).

Considerations of shareholder views

When determining remuneration, the Committee also takes into account the guidelines of investor bodies and shareholder views. The Committee considers these to be of great importance.

In late 2012, the Company consulted a number of its major shareholders and shareholder representative bodies in order to discuss proposed changes to its long-term incentive arrangements. We received valuable feedback from a number of key shareholders and took this into account in finalising the proposals.

As outlined in the Implementation Report below, the Company received strong support from its shareholders with a 98.84% vote in favour of last year's Directors' Remuneration Report.

The Committee continues to be mindful of shareholder views when determining ongoing remuneration strategy, and commits to undergoing shareholder consultation in advance of any significant changes to remuneration policy.

Implementation Report

Audited information

The following sections of this Implementation Report contain audited information in accordance with the requirements of the Companies Act 2006: total remuneration; pensions and exit payments made in year.

Remuneration Committee membership in 2012

The remit of the Remuneration Committee 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.

Throughout 2012 the Committee consisted of John Lorimer and Nicholas Page under the Chairmanship of Tony Hales. The Committee met nine times.

The CEO 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 acts as Secretary to the Committee and attended the meetings of the Committee in 2012. The Human Resources Director also attended the meetings of the Committee and provides advice to the Committee.

Adviser to the Committee

Kepler Associates ('Kepler') is the remuneration adviser to the Committee. During the year, Kepler provided independent advice on remuneration matters including incentive design, current market practice, target-setting and monitoring of total shareholder return. 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 2012 (based on time and materials) totalled £48,234 (excl. VAT).

Total remuneration

To aid transparency to our shareholders, the table below sets out the total remuneration received by each director for the year to 31 December 2012.

Name	Base salary/ fees ¹ £000	Benefits ² £000	Pension ³ £000	Annual bonus ⁴ (cash and DSP) £000	Performance share plan ⁵ £000	Compensation for early termination £000	2012 Total £000	2011 Total £000
Executive directors								
Gerard Ryan	432	25	86	346	–	–	889	–
David Broadbent	310	23	61	249	–	–	643	461
John Harnett ⁶	120	4	28	96	–	470	718	939
Total	862	52	175	691	–	470	2,250	1,400
Non-executive directors⁷								
Christopher Rodrigues	170	–	–	–	–	–	170	163
Tony Hales	70	–	–	–	–	–	70	70
Nicholas Page	65	–	–	–	–	–	65	65
John Lorimer	50	–	–	–	–	–	50	50
Edyta Kurek	50	–	–	–	–	–	50	50
Richard Moat	25	–	–	–	–	–	25	–
Charles Gregson	18	–	–	–	–	–	18	50
Total	448	–	–	–	–	–	448	448

Methodology

1 Base salary and fees paid in the year under review.

2 Benefits including private healthcare, life assurance, annual medical, long-term disability cover and a cash allowance in lieu of a company car.

3 Includes all pension related benefits.

4 For Gerard Ryan and David Broadbent, marginally above full target bonus awarded in relation to the 2012 performance year, including deferred portion (based on the face value on award). Gerard Ryan's award was pro-rated to reflect time in role. For John Harnett, the bonus amounted to a tailored incentive in respect of specific objectives during the period up to 31 March 2012 as described on page 65.

5 Market value at date of vesting of Performance Share Plan awards where final vesting is determined as a result of achieving performance conditions that end in the year under review.

6 As disclosed in the 2011 Annual Report and Financial Statements, John Harnett received compensation for early termination of his contract during 2012, fully detailed below.

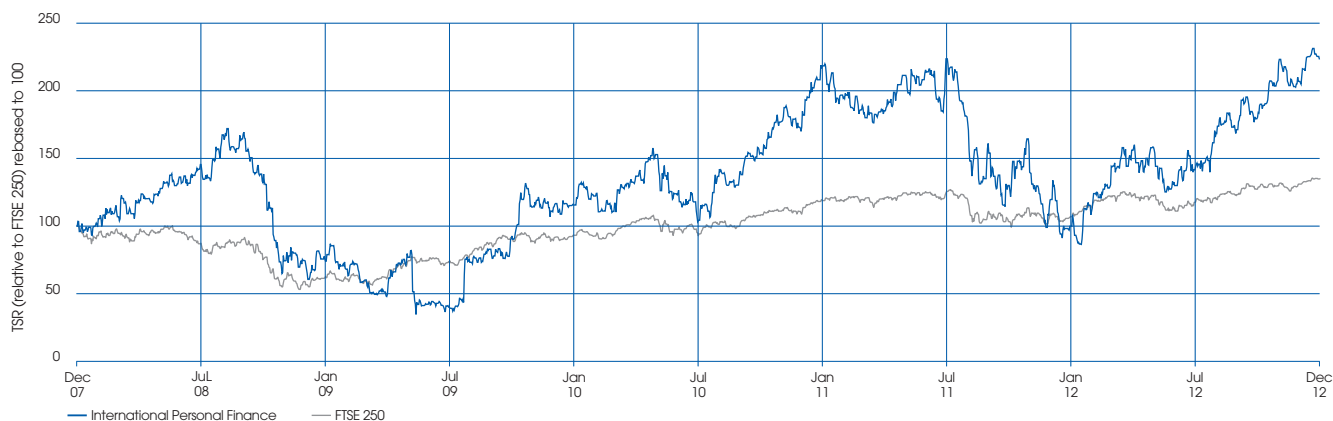
7 There was no increase in the remuneration of the Chairman or other non-executive directors during the year under review. The annual fee framework is as follows:

Annual fee framework

Role	Fee
Chairman	£170,000
Non-executive director (base fee)	£50,000
Senior Independent Director/Remuneration Committee Chairman	£20,000
Audit Committee Chairman	£15,000

Comparison of overall performance and pay

The graph below compares the TSR of the Company with the companies comprising the FTSE 250 Index for the five-year period ended 31 December 2012. 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.



Directors' Remuneration Report continued

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

		CEO remuneration £	Annual variable element award rates against maximum opportunity	LTIP vesting rates against maximum opportunity
2012	Gerard Ryan	889	80%	–
	John Harnett	718	–	–
2011	John Harnett	943	67%	–
2010	John Harnett	952	80%	–
2009	John Harnett	603	–	–
2008	John Harnett	920	96%	–

Directors' remuneration and incentives

Base salary

In 2012, no annual salary increases were awarded to the executive directors. The base salaries per annum during 2012 were:

Gerard Ryan: £450,000
David Broadbent: £310,000
John Harnett: £480,000

In February 2013, the Committee reviewed the salaries of the executive directors and determined their new salaries with effect from 1 April 2013 will be as follows:

Gerard Ryan: £463,500
David Broadbent: £319,300

Pensions

The Company has two pension schemes, the International Personal Finance plc Pension Scheme ('the Pension Scheme') and the International Personal Finance Stakeholder Pension Scheme ('the Stakeholder Scheme'). New employees are eligible to join the Stakeholder Scheme. The rate of company pension contribution for any executive director is 20% of basic salary. At the discretion of the Remuneration Committee, part may be paid as a cash allowance.

Executive directors are entitled currently to receive a contribution of 20% of basic salary to their pension arrangements. John Harnett, the previous CEO, was entitled to receive a contribution of 25% of his basic salary into his pension arrangements.

The Company's contributions in respect of Gerard Ryan during 2012 amounted to £86,310, all which was paid into pension arrangements. The Company's contributions in respect of John Harnett during 2012 amounted to £27,878, of which £12,500 was paid into pension arrangements and £15,378 was paid as a cash allowance.

David Broadbent was a member of the final salary section of the Pension Scheme until 1 April 2006 when he began to accrue benefits as a member of the cash balance section. He ceased to be a member of the cash balance section on 31 July 2008 and became a deferred member of the Pension Scheme. David Broadbent is now 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 2012 amounted to £60,545, of which £50,000 was paid into pension arrangements and £10,545 was paid as a cash allowance.

Details of David Broadbent's entitlements under both sections of the pension scheme are as follows:

Final salary	£
Accrued pension at 31 December 2012	14,108
Accrued pension at 31 December 2011 (restated)	13,411
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 2012	165,062
Transfer value of accrued pension at 31 December 2011 (restated)	163,120
Total change in transfer value during the period (net of director's contributions)	1,942
Director's contributions in 2012	-
Cash balance	£
Accrued cash balance lump sum at 31 December 2012	100,573
Accrued cash balance lump sum at 31 December 2011 (restated)	95,602
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 2012	47,045
Transfer value at 31 December 2011 (restated)	44,291
Total change in transfer value during the period (net of director's contributions)	2,754
Director's contributions in 2012	-

David Broadbent was age 44 at the end of the year. He became a deferred member of the pension scheme on 1 August 2008. The figures as at 31 December 2011 have been restated to reflect advice received about which measure of price inflation to use in the calculation of benefits.

Annual bonus

The maximum award for both the CEO and Finance Director in 2012 was 100% of salary (80% of salary for on target performance).

During 2012, a balanced scorecard approach was used for the annual bonus 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. The award for achievement of performance objectives is expressed as a percentage of the award for profit, and so scaled up or down (from 0x to 1x) according to the profit achievement.

Over the period, profit before tax and exceptional items was £95.1 million, which was between target and maximum. The Committee also reviewed the performance of the CEO and Finance Director against their agreed personal objectives for 2012. After consideration, the Committee awarded bonuses to the executive directors in the amounts shown below for the year ended 31 December 2012:

Executive	Financial objectives – achievement as a percentage of base salary	Individual objectives – achievement as a percentage of base salary	Cash bonus – £000	DSP – face value of shares due to vest in 2016	Total value of 2012 annual bonus – £000	Cash and DSP shares award – as a percentage of maximum bonus available
Gerard Ryan	40%	40%	115	231	346	80%
David Broadbent	40%	40%	83	166	249	80%

The Committee did not apply any discretion in relation to the bonus awards. The bonus was payable one third in cash, and two thirds in deferred shares which will vest at the end of a three-year period, subject to the director not being dismissed for misconduct. There are also provisions for clawback during the vesting period in the event of a restatement of the Company's Financial Statements or material misjudgment of performance.

Directors' Remuneration Report continued

PSP

Awards made during the year

Executive directors and senior management all participate in this plan. Awards are generally made as nil-cost options over a specific number of shares, and vest after a three-year performance period with vesting determined by performance targets and employment conditions.

50% of vested awards will be released after the end of the performance period, with 50% deferred for an additional 12 months. Awards made up to the end of 2012 vest based on absolute TSR performance.

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.

Type of award	Performance share award
Basis of award	CEO: 150% of salary (reflecting his appointment during the year); Finance Director: 100% of salary
Face value of award	CEO: £675,000 Finance Director: £310,000
Performance period	3 years from the date of grant
Performance conditions	Absolute TSR growth
Threshold	30% TSR over 3 years 33% vests
Maximum	60% TSR over 3 years 100% vests

Awards vesting during the year

2012 was not the last year of any PSP performance period for any of the executive directors who served in the year. No award under the PSP is due to vest for any executive director until 2013 (subject to performance).

DSP

Awards made during the year

Awards are granted in respect of the deferred element of the annual bonus. The award shares are eligible for a match. The match is one-for-one for executive directors and one-for-three for other members of the Senior Management Group. There are no performance conditions in respect of deferred shares granted in respect of the deferred element of the 2011 bonus scheme. The corresponding matching awards will vest only to the extent that the performance condition is satisfied, namely absolute growth in TSR on the same basis as for the PSP as set out in the section above.

Type of award	Deferred share award
Face value of deferred and matching awards granted in 2012	CEO: n/a as was appointed during the year Finance Director: deferred: £143,034; matching: £143,034
Performance period (matching only)	3 years from the date of grant
Performance conditions (matching only)	Absolute TSR growth
Threshold	30% TSR over 3 years 33% vests
Maximum	60% TSR over 3 years 100% vests

Awards vesting during the year

2012 was not the last year of any DSP performance period for any of the executive directors who served in the year. No award under the DSP is due to vest for any executive director until 2014 (subject to performance).

Other share schemes

The 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 PSP, the award under the PSP 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.

The SAYE Scheme

The executive directors (together with other UK Group employees) with six months service or more 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.

Exit payments made in year

John Harnett ceased to be a director on 31 March 2012. Pursuant to a compromise agreement made on 17 January 2012, by March 2013 he will have received £626,770 which represents 12 months' pay in lieu of notice (salary and contractual benefits) paid monthly in instalments. This was subject to a pound for pound offset if alternative employment (excluding non-executive directorships) was secured during that period.

He was also eligible for a tailored incentive of up to 20% of basic salary linked to specific objectives during the period up to 31 March 2012, payment of which was at the discretion of the Committee. The Committee agreed that John Harnett met the full conditions required for the payment of this incentive and authorised full payment thereof amounting to £96,000.

In addition, the Committee 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 PSP in July 2010 and the award over 149,626 shares granted to him under the PSP 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, had John Harnett secured alternative employment, the date of notification.

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 PSP 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.

Directors' Remuneration Report continued

Total shareholdings of directors

Directors and senior managers are expected to acquire a beneficial shareholding based on seniority, as shown in the table below. 50% of vesting incentives must be retained after tax until this guideline is met.

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

As at 1 March 2013, the directors have the following shareholdings:

	Shares held			
	Shareholding requirement	Owned outright	Subject to performance conditions	Subject to deferral
Gerard Ryan	250,000	200,000	282,590	–
David Broadbent	150,000	18,036	388,897	98,160
Christopher Rodrigues	45,000	218,562		
Tony Hales	15,000	25,000		
Edyta Kurek	15,000	–	Not applicable	
John Lorimer	15,000	28,727		
Richard Moat	15,000	–		
Nicholas Page	15,000	50,674		

Shareholder context

The table below shows the advisory vote on the 2012 Remuneration Report at the May 2012 AGM. It is the Committee's policy to consult with major shareholders prior to any major changes.

	For	Against	Withheld
Votes	98.84%	1.16%	0.03%

Additional Information

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.

Audited information

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

Share Options

PSP

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

Director's name	Awards held at 31 December 2011	Awards made in 2012	Date of award	Awards held at 31 December 2012	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
	-	105,457	8 Aug 2012	105,457	8 Aug 2012 – 7 Aug 2015	244	8 Aug 2015 – 7 Aug 2022
	213,368	105,457		318,825			
John Harnett	212,843	-	23 Jul 2010	189,193 ¹	23 Jul 2010 – 22 Jul 2013	221	23 Jul 2013 – 22 Jul 2020 ²
	149,626	-	29 Jul 2011	83,125 ¹	29 Jul 2011 – 28 Jul 2014	357	29 Jul 2014 – 28 Jul 2021 ²
	362,469	-		272,318¹			
Gerard Ryan	-	270,445	2 Mar 2012	270,445	2 Mar 2012 – 1 Mar 2015	193	2 Mar 2015 – 1 Mar 2022
	-	270,445		270,445			

¹ The awards held by John Harnett at 31 December 2012 have been pro-rated in accordance with the terms of the compromise agreement entered into on 17 January 2012.
² Under the terms of a compromise agreement entered into on 17 January 2012 the exercise period was amended: see the section 'Exit payments made in year' above.

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 PSP between 31 December 2012 and 1 March 2013.

There were no variations in the terms and conditions of plan interests during 2012.

The mid-market closing price of the Company's shares on 31 December 2012 was 373 pence and the range during 2012 was 148 pence to 386 pence.

The CSOP

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

Director's name	Awards held at 31 December 2011	Awards made in 2012	Awards held at 31 December 2012	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
John Harnett	14,416	-	12,814 ¹	23 Jul 2010 – 22 Jul 2013	221	23 Jul 2013 – 22 Jul 2020 ²	208
Gerard Ryan	-	12,145	12,145	2 Mar 2012 – 1 Mar 2015	193	2 Mar 2015 – 1 Mar 2022	247

¹ The awards held by John Harnett at 31 December 2012 have been pro-rated in accordance with the terms of the compromise agreement entered into on 17 January 2012.
² Under the terms of a compromise agreement entered into on 17 January 2012 the exercise period was amended: see the section 'Exit payments made in year' above.

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 2012 and 1 March 2013.

Directors' Remuneration Report continued

There were no variations in the terms and conditions of plan interests during 2012.

The mid-market closing price of the Company's shares on 31 December 2012 was 373 pence and the range during 2012 was 148 pence to 386 pence.

DSP

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

Director's name	Awards held at 31 December 2011	Awards made in 2012	Date of award	Awards held at 31 December 2012	Exercise period
David Broadbent	42,504	–	24 Mar 2011	42,504	24 Mar 2014 – 23 Mar 2021
	–	111,312 ¹	27 Mar 2012	111,312	27 Mar 2015 – 26 Mar 2022
	42,504	111,312		153,816	
John Harnett	75,564	–	24 Mar 2011	75,564	24 Mar 2014 – 23 Mar 2021 ²
	75,564	–		75,564	

¹ This comprises 55,656 deferred shares and 55,656 matching shares.

² 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 'Exit payments made in year' above.

Notes to awards

The awards made in 2012 were granted in respect of the deferred element of the 2011 bonus scheme for executive directors. They are nil-cost options to acquire shares for £nil consideration. There are no performance conditions.

The awards are eligible for a matching award, subject to the same performance conditions as the PSP.

There were no changes in the interests of directors under the DSP between 31 December 2012 and 1 March 2013.

There were no variations in the terms and conditions of plan interests during 2012.

The mid-market closing price of the Company's shares on 31 December 2012 was 373 pence and the range during 2012 was 148 pence to 386 pence.

The SAYE Scheme

The awards held under the SAYE Scheme are as follows:

Director's name	Awards held at 31 December 2011	Awards made in 2012	Awards held at 31 Dec 2012	Normal exercisable dates	Exercise price (p)
David Broadbent	8,936	–	8,936	1 Jun 2013 – 30 Nov 2013	188
Gerard Ryan	–	7,777	7,777	1 Jun 2019 – 30 Nov 2019	198

Notes to award

No consideration is payable on the grant of an option.

There were no changes in the interests of the directors under the SAYE Scheme between 31 December 2012 and 1 March 2013.

There have been no variations in the terms and conditions of scheme interests during the year.

The mid-market closing price of the Company's shares on 31 December 2012 was 373 pence and the range during 2012 was 148 pence to 386 pence.

Approved by the Board on 6 March 2013.

Ben Murphy

Company Secretary
6 March 2013

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 2012 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 auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). 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 2012 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 31, in relation to going concern;
- 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; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

6 March 2013

Consolidated income statement

for the year ended 31 December

Group	Notes	2012 £M	2011 £M
Revenue	1	651.7	649.5
Impairment	1	(176.2)	(167.7)
Revenue less impairment		475.5	481.8
Finance costs	2	(41.6)	(42.9)
Other operating costs		(100.3)	(97.1)
Administrative expenses		(238.5)	(241.3)
Total costs		(380.4)	(381.3)
Profit before taxation and exceptional item	1	95.1	100.5
Exceptional item	10	(4.8)	-
Profit before taxation	1	90.3	100.5
Tax income – UK		4.4	0.8
Tax expense – overseas		(20.6)	(24.8)
Total tax expense	5	(16.2)	(24.0)
Profit after taxation attributable to owners of the Company		74.1	76.5

The profit for the period is from continuing operations.

Group	Notes	2012 pence	2011 pence
Earnings per share – total			
Basic	6	29.42	30.17
Diluted	6	28.63	29.57

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

Statements of comprehensive income

for the year ended 31 December

	Notes	Group		Company	
		2012 £M	2011 £M	2012 £M	2011 £M
Profit/(loss) after taxation attributable to owners of the Company		74.1	76.5	(19.5)	(11.5)
Other comprehensive income/(expense)					
<i>Items that may subsequently be reclassified to income statement</i>					
Exchange gains/(losses) on foreign currency translations		11.7	(40.2)	-	-
Net fair value gains - cash flow hedges		2.1	0.4	-	-
Tax (charge)/credit on items that may be reclassified	5	(0.6)	0.5	-	-
<i>Items that will not subsequently be reclassified to income statement</i>					
Actuarial gains/(losses) on retirement benefit obligation		0.6	(6.8)	0.1	(1.5)
Tax (charge)/credit on items that will not be reclassified	5	(0.1)	1.7	(0.1)	0.4
Other comprehensive income/(expense) net of taxation		13.7	(44.4)	-	(1.1)
Total comprehensive income/(expense) for the year attributable to owners of the Company		87.8	32.1	(19.5)	(12.6)

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

Balance sheets

as at 31 December

	Notes	Group		Company	
		2012 £M	2011 £M	2012 £M	2011 £M
Assets					
Non-current assets					
Intangible assets	11	3.2	3.6	-	-
Investment in subsidiaries	12	-	-	667.1	665.7
Property, plant and equipment	13	28.3	30.6	0.5	0.6
Deferred tax assets	14	57.1	50.1	1.9	1.5
		88.6	84.3	669.5	667.8
Current assets					
Amounts receivable from customers:					
- due within one year		627.2	555.3	-	-
- due in more than one year		23.1	5.1	-	-
	15	650.3	560.4	-	-
Derivative financial instruments	21	-	10.0	-	-
Cash and cash equivalents	16	24.2	17.9	-	-
Other receivables	17	15.4	19.1	276.0	271.1
Current tax assets		2.0	-	6.3	4.2
		691.9	607.4	282.3	275.3
Total assets		780.5	691.7	951.8	943.1
Liabilities					
Current liabilities					
Borrowings	19	(16.4)	(6.4)	(5.1)	(3.1)
Derivative financial instruments	21	(1.4)	(0.3)	-	-
Trade and other payables	18	(68.2)	(57.4)	(240.1)	(169.4)
Current tax liabilities		(21.1)	(25.8)	-	-
		(107.1)	(89.9)	(245.2)	(172.5)
Non-current liabilities					
Retirement benefit obligation	24	(3.2)	(4.0)	(0.6)	(0.8)
Borrowings	19	(294.4)	(270.1)	(208.1)	(212.5)
		(297.6)	(274.1)	(208.7)	(213.3)
Total liabilities		(404.7)	(364.0)	(453.9)	(385.8)
Net assets		375.8	327.7	497.9	557.3
Equity attributable to owners of the Company					
Called-up share capital	26	24.9	25.7	24.9	25.7
Other reserve		(22.5)	(22.5)	226.3	226.3
Foreign exchange reserve		13.7	2.0	-	-
Hedging reserve		(0.3)	(1.8)	-	-
Shares held by employee trust		(4.5)	(5.7)	(4.5)	(5.7)
Capital redemption reserve		0.8	-	0.8	-
Retained earnings		363.7	330.0	250.4	311.0
Total equity		375.8	327.7	497.9	557.3

The accounting policies and notes 1 to 30 are an integral part of these 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 6 March 2013 and were signed on its behalf by:

Gerard Ryan
Chief Executive Officer

David Broadbent
Finance Director

Statements of changes in equity

Group – Attributable to owners of the Company	Called-up share capital £M	Other reserve £M	Foreign exchange reserve £M	Hedging reserve £M	Shares held by employee trust £M	Capital redemption reserve £M	Retained earnings £M	Total equity £M
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 (expense)/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 other comprehensive (expense)/income	–	–	–	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
At 1 January 2012	25.7	(22.5)	2.0	(1.8)	(5.7)	–	330.0	327.7
Comprehensive income								
Profit after taxation for the year	–	–	–	–	–	–	74.1	74.1
Other comprehensive income/(expense)								
Exchange gains on foreign currency translation	–	–	11.7	–	–	–	–	11.7
Net fair value gains – cash flow hedges	–	–	–	2.1	–	–	–	2.1
Actuarial gains on retirement benefit obligation	–	–	–	–	–	–	0.6	0.6
Tax charge on other comprehensive income	–	–	–	(0.6)	–	–	(0.1)	(0.7)
Total other comprehensive income	–	–	11.7	1.5	–	–	0.5	13.7
Total comprehensive income for the year	–	–	11.7	1.5	–	–	74.6	87.8
Transactions with owners								
Share-based payment adjustment to reserves	–	–	–	–	–	–	3.1	3.1
Deferred tax on share-based payment transactions	–	–	–	–	–	–	0.8	0.8
Own shares acquired	(0.8)	–	–	–	–	0.8	(25.0)	(25.0)
Shares granted from employee trust	–	–	–	–	1.2	–	(1.2)	–
Dividends paid to Company shareholders	–	–	–	–	–	–	(18.6)	(18.6)
At 31 December 2012	24.9	(22.5)	13.7	(0.3)	(4.5)	0.8	363.7	375.8

Statements of changes in equity continued

Company – Attributable to owners of the Company	Called-up share capital £M	Other reserve £M	Shares held by employee trust £M	Capital redemption reserve £M	Retained earnings £M	Total equity £M
At 1 January 2011	25.7	226.3	(5.7)	–	339.9	586.2
Comprehensive expense						
Loss after taxation for the year	–	–	–	–	(11.5)	(11.5)
Other comprehensive (expense)/income						
Actuarial losses on retirement benefit obligation	–	–	–	–	(1.5)	(1.5)
Tax credit on other comprehensive expense	–	–	–	–	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
At 1 January 2012	25.7	226.3	(5.7)	–	311.0	557.3
Comprehensive expense						
Loss after taxation for the year	–	–	–	–	(19.5)	(19.5)
Other comprehensive income/(expense)						
Actuarial gains on retirement benefit obligation	–	–	–	–	0.1	0.1
Tax charge on other comprehensive income	–	–	–	–	(0.1)	(0.1)
Total other comprehensive income	–	–	–	–	–	–
Total comprehensive expense for the year	–	–	–	–	(19.5)	(19.5)
Transactions with owners						
Share-based payment adjustment to reserves	–	–	–	–	3.1	3.1
Deferred tax on share-based payment transactions	–	–	–	–	0.6	0.6
Own shares acquired	(0.8)	–	–	0.8	(25.0)	(25.0)
Shares granted from employee trust	–	–	1.2	–	(1.2)	–
Dividends paid to Company shareholders	–	–	–	–	(18.6)	(18.6)
At 31 December 2012	24.9	226.3	(4.5)	0.8	250.4	497.9

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

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company income statement. The loss after taxation of the Parent Company for the period was £19.5 million (2011: loss of £11.5 million).

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

Cash flow statements

for the year ended 31 December

	Notes	Group		Company	
		2012 \$M	2011 \$M	2012 \$M	2011 \$M
Cash flows from operating activities					
Cash generated from operating activities	27	98.2	82.7	50.9	31.2
Established businesses		89.6	78.1	50.9	31.2
Developing businesses		8.6	4.6	-	-
		98.2	82.7	50.9	31.2
Finance costs paid		(40.9)	(42.9)	(32.8)	(30.5)
Finance income received		-	-	24.3	28.1
Income tax paid		(28.1)	(27.9)	3.7	(1.8)
Net cash generated from operating activities		29.2	11.9	46.1	27.0
Cash flows from investing activities					
Purchases of property, plant and equipment	13	(9.4)	(13.8)	(0.1)	(0.8)
Proceeds from sale of property, plant and equipment		2.5	2.7	-	-
Purchases of intangible assets	11	(1.5)	(0.5)	-	-
Net cash used in investing activities		(8.4)	(11.6)	(0.1)	(0.8)
Net cash from operating and investing activities					
Established businesses		30.9	12.4	46.0	26.2
Developing businesses		(10.1)	(12.1)	-	-
		20.8	0.3	46.0	26.2
Cash flows from financing activities					
Proceeds from borrowings		54.6	38.2	12.3	10.1
Repayment of borrowings		(25.9)	(25.0)	(14.7)	(20.0)
Dividends paid to Company shareholders	7	(18.6)	(17.1)	(18.6)	(17.1)
Acquisition of own shares		(25.0)	-	(25.0)	-
Net cash used in financing activities		(14.9)	(3.9)	(46.0)	(27.0)
Net increase/(decrease) in cash and cash equivalents		5.9	(3.6)	-	(0.8)
Cash and cash equivalents at beginning of year		17.9	23.5	-	0.8
Exchange gains/(losses) on cash and cash equivalents		0.4	(2.0)	-	-
Cash and cash equivalents at end of year	16	24.2	17.9	-	-
Cash and cash equivalents at end of year comprise:					
Cash at bank and in hand	16	24.2	17.9	-	-

The accounting policies and notes 1 to 30 are an integral part of these 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 2012 but do not have any impact on the Group:

- IFRS 1 (amendment) 'Severe hyperinflation and removal of fixed dates for first-time adopters';
- IFRS 7 (amendment) 'Disclosures – transfers of financial assets'; and
- IAS 12 (amendment) 'Deferred tax: recovery of underlying assets'.

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

- Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment entities';
- Annual improvement to IFRSs: 2009-2011 cycle;
- IFRS 1 (amendment) 'Government loans';
- IFRS 7 (amendment) 'Disclosures – offsetting financial assets and financial liabilities';
- 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. The Group is in the process of assessing IFRS 9's full impact;
- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint arrangements';
- IFRS 12 'Disclosure of interests in other entities';
- IFRS 13 'Fair value measurement';
- IAS 1 (amendment) 'Presentation of items of other comprehensive income';
- IAS 19 (revised) 'Employee benefits';
- IAS 27 (revised) 'Separate Financial Statements';
- IAS 28 (revised) 'Investments in associates and joint ventures'; 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 31.

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.

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.

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.

Accounting policies continued

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 'Financial instruments: recognition and measurement'.

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. 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. 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. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately within the income statement. The Group discontinued its policy of hedging foreign currency profits from 2013.

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.

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.

Accounting policies continued

Upon consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. 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 other 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 judgments 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 £32.5 million higher/lower (2011: £28.0 million).

IAS 39 requires that all of the cash flows directly associated with financial instruments held at amortised cost must be recognised in the income statement using the effective interest rate method. When this approach is applied to a customer loan portfolio, judgments must be made to estimate the average life of that portfolio. These judgments are applied, taking into account factors including the terms of the particular products and historical repayment data. These estimates are considered and updated as required in each reporting period to reflect the customer loan portfolio's expected performance.

Retirement benefit asset or obligation

A number of judgments 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 the rate of pension increases. These judgments 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		Impairment		Profit before taxation	
	2012 £M	2011 £M	2012 £M	2011 £M	2012 £M	2011 £M
Poland	268.8	273.2	79.5	83.2	62.2	66.0
Czech-Slovakia	133.4	144.8	34.2	30.2	28.8	37.8
Hungary	78.2	74.2	11.9	9.0	10.1	8.3
UK costs*	-	-	-	-	(13.1)	(17.2)
Established businesses	480.4	492.2	125.6	122.4	88.0	94.9
Mexico	114.1	102.9	32.3	31.1	4.9	1.5
Romania	57.2	54.4	18.3	14.2	2.2	4.1
Total – pre-exceptional item	651.7	649.5	176.2	167.7	95.1	100.5
Exceptional item	-	-	-	-	(4.8)	-
Total	651.7	649.5	176.2	167.7	90.3	100.5

Group	Segment assets		Segment liabilities	
	2012 £M	2011 £M	2012 £M	2011 £M
Poland	291.1	247.4	75.8	86.5
Czech-Slovakia	172.8	172.8	73.1	58.3
Hungary	104.8	87.2	47.7	49.0
UK	34.5	32.8	106.0	86.1
Mexico	116.9	92.7	70.3	54.6
Romania	60.4	58.8	31.8	29.5
Total	780.5	691.7	404.7	364.0

Group	Capital expenditure		Depreciation	
	2012 £M	2011 £M	2012 £M	2011 £M
Poland	1.1	0.9	1.5	2.5
Czech-Slovakia	1.3	3.1	2.0	3.7
Hungary	2.3	0.5	1.2	1.7
UK	3.5	7.2	3.5	1.7
Mexico	0.7	1.5	1.0	0.8
Romania	0.5	0.6	0.6	0.7
Total	9.4	13.8	9.8	11.1

*Although the UK costs are not classified as a separate segment in accordance with IFRS 8 'Operating segments', they are shown separately above in order to provide a reconciliation to profit before taxation.

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 £651.7 million (2011: £649.5 million) and the breakdown by geographical area is disclosed above.

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is £16.6 million (2011: £17.0 million), and the total of non-current assets located in other countries is £14.9 million (2011: £17.2 million).

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

Expenditure on intangible assets of £1.5 million (2011: £0.5 million) and amortisation of £1.9 million (2011: £3.7 million) 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	2012 £M	2011 £M
Interest payable on borrowings	41.6	42.9

3. Profit before taxation

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

Group	2012 £M	2011 £M
Depreciation of property, plant and equipment (note 13)	9.8	11.1
(Profit)/loss on disposal of property, plant and equipment	(0.2)	3.0
Amortisation of intangible assets (note 11)	1.9	3.7
Operating lease rentals:		
- property	12.6	13.8
- equipment	8.0	5.7
Employee costs (note 9)	146.1	145.0

4. Auditor's remuneration

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

Group	2012 £M	2011 £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 compliance services	-	-
- other assurance services	0.1	-

Further details on auditor remuneration can be found in the Corporate Governance Statement on page 46.

5. Tax expense

Group	2012 £M	2011 £M
Total current tax	21.0	29.6
Total deferred tax (note 14)	(4.8)	(5.6)
Tax expense	16.2	24.0

Group	2012 £M	2011 £M
Tax charge/(credit) on other comprehensive income		
Deferred tax charge/(credit) on net fair value gains – cash flow hedges	0.3	(0.3)
Deferred tax charge/(credit) on actuarial gains/(losses) on retirement benefit obligation	0.1	(1.7)
Current tax charge/(credit) on net fair value gains – cash flow hedges	0.3	(0.2)
	0.7	(2.2)

The rate of tax expense on the profit before taxation for the year ended 31 December 2012 is lower than (2011: lower than) the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained as follows:

Group	2012 £M	2011 £M
Profit before taxation	90.3	100.5
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	22.1	26.6
Effects of:		
- adjustment in respect of prior years	(7.9)	(0.7)
- adjustment in respect of foreign tax rates	(0.9)	(4.2)
- expenses not deductible for tax purposes	1.9	5.9
- impact of rate change on deferred tax asset	1.0	(3.6)
Total tax expense	16.2	24.0

In 2012 the adjustment in respect of prior years of £7.9 million includes a credit of £8.4 million resulting from a reduction in provisions for uncertain tax positions. This arises as a result of the Group refining its method to reflect the latest best estimate of probable future outflows of economic benefits. Excluding this credit and the credit of £1.1 million on the exceptional item, the total tax expense for 2012 is £25.7 million which represents an effective tax rate on pre-exceptional profit of 27.0%.

Notes to the Financial Statements continued

6. Earnings per share

Basic earnings per share ('EPS') from continuing operations is calculated by dividing the earnings attributable to shareholders of £74.1 million (2011: £76.5 million) by the weighted average number of shares in issue during the period of 251.9 million (2011: 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	2012 M	2011 M
Used in basic EPS calculation	251.9	253.6
Dilutive effect of awards	6.9	5.1
Used in diluted EPS calculation	258.8	258.7

Basic and diluted EPS are presented below:

Group	2012 pence	2011 pence
Basic EPS	29.42	30.17
Dilutive effect of awards	(0.79)	(0.60)
Diluted EPS	28.63	29.57

The adjusted earnings per share of 27.6 pence, shown in the financial review, has been presented at a constant 27.0% tax rate and before exceptional items in 2012 in order to better present the performance of the Group. As explained in note 5, the effective tax rate in 2012 was impacted by a one-off adjustment to the tax charge arising from refining the method for providing for uncertain tax provisions and the underlying rate was 27.0%.

7. Dividends

Group and Company	2012 £M	2011 £M
Interim dividend of 3.23 pence per share (2011: interim dividend of 3.00 pence per share)	8.2	7.6
Final 2011 dividend of 4.10 pence per share (2011: final 2010 dividend of 3.74 pence per share)	10.4	9.5
	18.6	17.1

The directors are recommending a final dividend in respect of the financial year ended 31 December 2012 of 4.51 pence per share which will amount to a full year dividend payment of £19.3 million. If approved by the shareholders at the annual general meeting ('AGM'), this dividend will be paid on 3 May 2013 to shareholders who are on the register of members at 22 March 2013. This dividend is not reflected as a liability in the balance sheet as at 31 December 2012 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.

	2012 £M	2011 £M
Short-term employee benefits	6.3	5.6
Post-employment benefits	0.3	0.3
Share-based payments	0.8	0.8
Total	7.4	6.7

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	2012 Number	2011 Number
Full-time*	6,086	5,899
Part-time**	3,199	3,257
	9,285	9,156

* Includes 118 agents in Hungary (2011: 86).

**Includes 2,615 agents in Hungary (2011: 2,729).

Typically agents are 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	2012 Number	2011 Number
Operations	5,764	5,719
Administration	1,074	1,036
Head office and security	2,447	2,401
	9,285	9,156

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

Group	2012 £M	2011 £M
Gross wages and salaries	118.8	117.8
Social security costs	24.4	24.4
Pension charge – defined contribution schemes (note 24)	0.9	0.9
Share-based payment charge (note 25)	2.0	1.9
Total	146.1	145.0

10. Exceptional item

Group	2012 £M	2011 £M
Exceptional restructuring costs	4.8	–
Tax	(1.1)	–
Post-tax exceptional charge	3.7	–

Profit before taxation includes an exceptional charge of £4.8 million in respect of the cost of a management restructuring exercise designed to strengthen UK functional support teams and refresh the country management teams (2011: £nil).

11. Intangible assets

Group	2012 £M	2011 £M
Net book value		
At 1 January	3.6	6.8
Additions	1.5	0.5
Amortisation	(1.9)	(3.7)
At 31 December	3.2	3.6
Analysed as:		
– cost	26.7	25.2
– amortisation	(23.5)	(21.6)
At 31 December	3.2	3.6

Intangible assets comprise computer software.

The Company has no intangible assets.

Notes to the Financial Statements continued

12. Investment in subsidiaries

Company	2012 £M	2011 £M
Investment in subsidiaries	663.6	663.6
Share-based payment adjustment	3.5	2.1
	667.1	665.7

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 £663.6 million and this amount was therefore capitalised as a cost of investment. £3.5 million (2011: £2.1 million) has been added to the cost of investment representing the fair value of the share-based payment awards over IPF plc shares made to employees of subsidiary companies of IPF plc. The corresponding credit has been taken to reserves.

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 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.

13. Property, plant and equipment

Equipment and vehicles, fixtures and fittings

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Cost				
At 1 January	78.7	87.2	0.8	-
Exchange adjustments	1.7	(6.7)	-	-
Additions	9.4	13.8	0.1	0.8
Disposals	(9.5)	(15.6)	-	-
At 31 December	80.3	78.7	0.9	0.8
Depreciation				
At 1 January	48.1	51.5	0.2	-
Exchange adjustments	1.3	(4.7)	-	-
Charge to the income statement	9.8	11.1	0.2	0.2
Disposals	(7.2)	(9.8)	-	-
At 31 December	52.0	48.1	0.4	0.2
Net book value at 31 December	28.3	30.6	0.5	0.6

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	
	2012 £M	2011 £M	2012 £M	2011 £M
At 1 January	50.1	48.5	1.5	0.3
Exchange differences	1.8	(6.0)	-	-
Credit/(charge) to the income statement	4.8	5.6	(0.1)	0.8
Tax (charge)/credit on other comprehensive income	(0.4)	2.0	(0.1)	0.4
Tax credit on items taken directly to equity	0.8	-	0.6	-
At 31 December	57.1	50.1	1.9	1.5

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 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) on the income statement	3.7	(1.6)	3.5	5.6	(0.4)	1.2	0.8	
Tax credit on other comprehensive income	-	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	
At 1 January 2012	9.1	1.0	40.0	50.1	0.2	1.3	1.5	
Exchange differences	0.2	-	1.6	1.8	-	-	-	
Credit/(charge) to the income statement	2.8	(0.2)	2.2	4.8	-	(0.1)	(0.1)	
Tax charge on other comprehensive income	-	(0.1)	(0.3)	(0.4)	(0.1)	-	(0.1)	
Tax credit on items taken directly to equity	-	-	0.8	0.8	-	0.6	0.6	
At 31 December 2012	12.1	0.7	44.3	57.1	0.1	1.8	1.9	

Deferred tax assets have been recognised in respect of tax losses and other temporary timing differences (principally relating to recognition of revenue and impairment) to the extent that it is probable that these assets will be utilised against future taxable profits.

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 dividend exemption, and hence no exposure to UK tax is expected to arise.

15. Amounts receivable from customers

Group	2012 £M	2011 £M
Amounts receivable from customers comprise:		
- amounts due within one year	627.2	555.3
- amounts due in more than one year	23.1	5.1
	650.3	560.4

Notes to the Financial Statements continued

15. Amounts receivable from customers continued

All lending is in the local currency of the country in which the loan is issued. The currency profile of amounts receivable from customers is as follows:

Group	2012 £M	2011 £M
Polish zloty	264.0	222.3
Czech crown	108.0	106.8
Euro (Slovakia)	46.6	43.9
Hungarian forint	89.1	68.1
Central European currencies	507.7	441.1
Mexican peso	87.1	66.2
Romanian leu	55.5	53.1
	650.3	560.4

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 131% (2011: 132%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 5.4 months (2011: 4.9 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 £370.1 million (2011: £378.0 million).

The Company has no amounts receivable from customers.

16. Cash and cash equivalents

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Cash at bank and in hand	24.2	17.9	-	-

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

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Sterling	0.1	0.1	-	-
Polish zloty	10.2	6.1	-	-
Czech crown	2.8	2.8	-	-
Euro (Slovakia)	1.6	0.9	-	-
Hungarian forint	2.3	1.9	-	-
Mexican peso	4.3	3.0	-	-
Romanian leu	2.9	3.1	-	-
Total	24.2	17.9	-	-

17. Other receivables

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Other receivables	3.2	4.6	-	-
Prepayments	12.2	14.5	4.0	6.2
Amounts due from Group undertakings	-	-	272.0	264.9
Total	15.4	19.1	276.0	271.1

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	
	2012 \$M	2011 \$M	2012 \$M	2011 \$M
Trade payables	5.0	3.2	0.6	0.2
Other payables including taxation and social security	21.3	14.8	-	0.1
Accruals	41.9	39.4	17.1	16.5
Amounts due to Group undertakings	-	-	222.4	152.6
Total	68.2	57.4	240.1	169.4

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 €225 million (£182.7 million) Euro Medium Term Notes ('EMTN') bonds maturing 2015; the Romanian lei 36.5 million (£6.7 million) EMTN bonds maturing 2014; the Polish zloty 200 million (£39.9 million) bonds maturing 2015; the Czech crown 280 million (£9.1 million) EMTN bonds maturing 2015; the Czech crown 100 million (£3.2 million) EMTN bonds maturing 2016; and borrowings under committed revolving bank credit facilities and overdraft facilities. Committed facilities have maturities up to 2015 and borrowings under uncommitted overdraft facilities are repayable on demand. At 31 December 2012, borrowings under the bond and bank facilities amounted to £310.8 million (2011: £276.5 million). All borrowings are unsecured.

The Group and Company's borrowings are as follows:

	Group		Company	
	2012 \$M	2011 \$M	2012 \$M	2011 \$M
Borrowings				
Bank borrowings	69.2	44.6	11.5	21.1
Bonds	241.6	231.9	201.7	194.5
Total	310.8	276.5	213.2	215.6

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

	Group		Company	
	2012 \$M	2011 \$M	2012 \$M	2011 \$M
Borrowings				
Repayable:				
- in less than one year	16.4	6.4	5.1	3.1
- between one and two years	14.3	40.6	6.7	18.0
- between two and five years	280.1	229.5	201.4	194.5
Total	310.8	276.5	213.2	215.6

The average period to maturity of the Group's external bonds and committed external borrowing facilities is 2.2 years (2011: 2.8 years).

Notes to the Financial Statements continued

19. Borrowing facilities and borrowings continued

The currency exposure on external borrowings is as follows:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Sterling	11.4	21.1	11.5	21.1
Polish zloty	45.2	40.1	-	-
Czech crown	24.8	2.3	12.3	-
Euro	186.6	194.7	182.7	187.5
Hungarian forint	7.7	1.7	-	-
Mexican peso	28.4	9.7	-	-
Romanian leu	6.7	6.9	6.7	7.0
Total	310.8	276.5	213.2	215.6

The €225 million (£182.7 million) EMTN bonds are fixed rate bonds at a coupon of 11.5% until maturity in 2015. The Romanian lei 36.5 million (£6.7 million) EMTN bonds are fixed rate bonds at a coupon of 12.0% until maturity in 2014. In July 2012, we issued fixed rate Czech crown 100 million (£3.2 million) of four year bonds at a coupon of 9.0% until maturity in 2016, and fixed rate Czech crown 280 million (£9.1 million) of three year bonds at a coupon of 8.5% until maturity in 2015. The Polish zloty 200 million (£39.9 million) bonds are floating rate bonds, although derivative contracts have been used to fix borrowing costs for a period of 21 months up to September 2014. All of the external bank borrowings of the Group are at floating rates.

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

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Bond and bank facilities available				
Repayable:				
- on demand	11.4	11.0	5.0	5.0
- in less than one year	64.8	6.2	22.4	-
- between one and two years	26.8	178.9	6.7	85.6
- between two and five years	367.3	251.8	247.8	194.5
Total	470.3	447.9	281.9	285.1

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

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Expiring within one year	59.8	10.8	22.3	1.9
Expiring between one and two years	12.5	138.3	-	67.6
Expiring in more than two years	87.2	22.3	46.4	-
Total	159.5	171.4	68.7	69.5

In January 2013, IPF plc issued fixed rate Hungarian forint 4bn (£11.2 million) of five year EMTN bonds at a coupon of 11% until maturity in 2018.

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 are 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 2012, the Group's bonds and committed borrowing facilities had an average period to maturity of 2.2 years (2011: 2.8 years). As shown in note 19, total undrawn facilities as at 31 December 2012 were £159.5 million (2011: £171.4 million).

A maturity analysis of gross borrowings included in the balance sheet is presented in note 19. A maturity analysis of bonds, bank borrowings and overdrafts outstanding at the balance sheet date by non-discounted contractual cash flow, including expected interest payments, is shown below:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Not later than six months	16.1	5.0	11.6	1.2
Later than six months and not later than one year	35.6	33.5	16.9	25.5
Later than one year and not later than two years	42.7	70.0	29.1	42.3
Later than two years and not later than five years	299.8	285.1	215.0	238.5
	394.2	393.6	272.6	307.5

The analysis above includes the contractual cash flow for borrowings and the total amount of interest payable over the life of the loan. Where borrowings are subject to a floating interest rate, an estimate of interest payable is taken. The rate is derived from interest rate yield curves at the balance sheet date.

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	2012		2011	
	Outflow £M	Inflow £M	Outflow £M	Inflow £M
Not later than one month	7.9	7.7	43.5	44.2
Later than one month and not later than six months	138.7	138.1	110.1	116.2
Later than six months and not later than one year	49.0	46.7	44.6	45.4
Later than one year and not later than two years	33.1	32.0	62.8	64.1
Later than two years and not later than five years	1.6	1.6	–	–
	230.3	226.1	261.0	269.9

Company	2012		2011	
	Outflow £M	Inflow £M	Outflow £M	Inflow £M
Not later than one month	0.8	0.8	0.8	0.7
Later than one month and not later than six months	2.5	2.4	1.5	1.5
Later than six months and not later than one year	1.4	1.3	0.9	0.9
Later than one year and not later than two years	–	–	–	–
Later than two years and not later than five years	–	–	–	–
	4.7	4.5	3.2	3.1

When the amount payable or receivable is not fixed, the amount disclosed has been determined with reference to the projected interest rates as illustrated by the interest rate yield curves existing at the balance sheet date.

A maturity analysis of the Group's receivables and borrowing facilities as at 31 December is presented below:

Group	Receivables £M	Percentage of total %	Borrowing facilities £M	Percentage of total %
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
2012				
Less than one year	627.2	96.4	76.2	16.2
Later than one year	23.1	3.6	394.1	83.8
	650.3	100.0	470.3	100.0

This demonstrates the short-term nature of the amounts receivable from customers which contrasts with the longer-term nature of the Group's committed funding facilities.

Amounts receivable from customers

Risk management policies in respect of amounts receivable from customers are discussed in the credit risk section within this note.

Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates in each of its countries of operation and, therefore, seeks to limit this net exposure. This is achieved by the use of techniques to fix interest costs, including fixed rate funding, (predominantly longer-term bond funding); forward currency contracts used for non-functional currency funding; bank borrowing loan draw-down periods; and interest rate hedging instruments. These techniques are used to hedge the interest costs on a proportion of borrowings over a certain period of time, up to five years, although most hedging is for up to two years.

20. Risks arising from financial instruments continued

Interest costs are a relatively low proportion of the Group's revenue (6.4% in 2012; 6.6% in 2011) 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	2012 £M	2011 £M
Increase in fair value of derivatives taken to equity	1.7	1.2
Reduction in profit before taxation	0.8	0.4

This sensitivity analysis is based on the following assumptions:

- the change in the market interest rate occurs in all countries where the Group has borrowings and/or derivative financial instruments;
- where financial liabilities are subject to fixed interest rates or have their interest rate fixed by hedging instruments it is assumed that there is no impact from a change in interest rates; and
- changes in market interest rate affect the fair value of derivative financial instruments.

Currency risk

The Group is subject to three types of currency risk: net asset exposure; cash flow exposure; and income statement exposure.

Net asset exposure

The majority of the Group's net assets are denominated in currencies other than sterling. The balance sheet is reported in sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have a material impact on the net assets of the Group. The impact in 2012 is an increase in net assets of £11.7 million (2011: reduction of £40.2 million). The Group aims to minimise the value of net assets denominated in each foreign currency by funding overseas receivables with borrowings in local currency, where possible.

Cash flow exposure

The Group is subject to currency risk in respect of future cash flows which are denominated in foreign currency. The policy of the Group is to hedge a large proportion of this currency risk in respect of cash flows which are expected to arise in the following 12 months. Where forward foreign exchange contracts have been entered into, they are designated as cash flow hedges on specific future transactions.

Income statement exposure

As with net assets, the majority of the Group's profit is denominated in currencies other than sterling but translated into sterling for reporting purposes. The result for the period is translated into sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rates in the countries in which the Group operates will have a material impact on the consolidated result for the period.

The following sensitivity analysis demonstrates the impact on equity of a 5% strengthening or weakening of sterling against all exchange rates for the countries in which the Group operates:

Group	2012 £M	2011 £M
Change in reserves	0.8	1.4
Change in profit before taxation	0.9	1.5

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 retained earnings or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

Counterparty risk

The Group is subject to counterparty risk in respect of the cash and cash equivalents held on deposit with banks; and foreign currency and derivative financial instruments.

The Group only deposits cash, and only undertakes currency and derivative transactions, generally with highly rated banks and sets strict limits in respect of the amount of exposure to any one institution. Institutions with lower credit ratings can only be used with Board approval.

Notes to the Financial Statements continued

20. Risks arising from financial instruments continued

No collateral or credit enhancements are held in respect of any financial assets. The maximum exposure to counterparty risk is as follows:

Group	2012 £M	2011 £M
Cash and cash equivalents	24.2	17.9
Derivative financial assets	-	10.0
Total	24.2	27.9

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, to ensure the risk of loss is minimised.

Credit risk

The Group is subject to credit risk in respect of amounts receivable from customers.

Amounts receivable from customers

The Group lends small amounts over short-term periods to a large and diverse group of customers across the countries in which it operates. Nevertheless, the Group is subject to a risk of material unexpected credit losses in respect of amounts receivable from customers. This risk is minimised by the use of credit scoring techniques which are designed to ensure the Group 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 credit 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	2012 £M	2011 £M
Amounts receivable from customers	650.3	560.4

The table above 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 amount 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		Impaired	
	2012 £M	2011 £M	2012 £M	2011 £M
Poland	71.4	61.3	192.6	161.0
Czech-Slovakia	48.2	45.8	106.4	104.9
Hungary	36.7	27.9	52.4	40.2
Mexico	19.9	16.0	67.2	50.2
Romania	20.1	20.6	35.4	32.5
	196.3	171.6	454.0	388.8

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 segment is shown below:

Group	2012 %	2011 %
Poland	29.6	30.5
Czech-Slovakia	25.6	20.9
Hungary	15.2	12.1
Mexico	28.3	30.2
Romania	32.0	26.1

The carrying value of amounts receivable from customers that would have been impaired had their terms not been renegotiated is £nil (2011: £nil).

Capital risk

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group is not required to hold regulatory capital.

The Group aims to maintain appropriate capital to ensure that it has a strong balance sheet but at the same time is providing a good return on equity to its shareholders. The Group's long-term aim is to ensure that the capital structure results in an optimal ratio of debt and equity finance.

Capital is monitored by considering the ratio of equity to receivables and the gearing ratio. The equity of the Group and these ratios are shown below:

Group	2012 £M	2011 £M
Receivables	650.3	560.4
Borrowings	(310.8)	(276.5)
Other net assets	36.3	43.8
Equity	375.8	327.7
Equity as % of receivables	57.8%	58.5%
Gearing	0.8	0.8

Equity as a percentage of receivables was above the internal minimum requirement set by the Group.

Gearing, which is equal to borrowings divided by equity, at a ratio of 0.8 times (2011: 0.8 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 of derivative financial instruments by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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	2012 £M	2011 £M
Assets		
Foreign currency contracts	-	10.0
Total	-	10.0

Group	2012 £M	2011 £M
Liabilities		
Interest rate swaps	0.8	0.3
Foreign currency contracts	0.6	-
Total	1.4	0.3

The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at 31 December.

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 £2.1 million has been credited to equity for the Group in the period in respect of cash flow hedges (2011: credit of £0.4 million), Company: £nil (2011: £nil).

Foreign currency contracts

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2012 is £229.9 million (2011: £270.2 million). These comprise:

- foreign currency contracts to buy or sell operational currencies against the euro for a total notional amount of £222.1 million (2011: £266.0 million). These contracts have various maturity dates up to January 2015 (2011: November 2013). 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 £1.3 million (2011: £0.5 million). These contracts have various maturity dates up to December 2013 (2011: 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; and
- foreign currency contracts to buy or sell sterling for a total notional amount of £6.5 million (2011: £3.7 million). These contracts have various maturity dates up to March 2013 (2011: February 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.

The total notional amount of outstanding foreign currency contracts that the Company is committed to at 31 December 2012 is £4.7 million (2011: £3.2 million). 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.

21. Derivative financial instruments continued

In 2012 the Group also entered 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. The Group discontinued its policy of hedging foreign currency profits from 2013.

Interest rate swaps

The total notional principal of outstanding interest rate swaps that the Group is committed to is £130.9 million (2011: £86.4 million). In 2012, 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 (2011: £nil) has been made to the income statement in the year representing the movement in the fair value of the ineffective portion of the interest rate swaps and the income statement charge relating to the closure of interest rate swaps.

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

Group	2012			2011		
	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	4.9	3.9-5.8	0.8	5.3	4.7-5.8	0.7
Mexican peso	5.4	5.0-5.9	1.0	5.9	5.9	1.0

The Company did not hold any interest rate swaps at 31 December 2012 (31 December 2011: £nil).

22. Analysis of financial assets and financial liabilities

Financial assets

An analysis of Group financial assets is presented below:

Group	2012			2011		
	Loans and receivables £M	Derivatives used for hedging £M	Total £M	Loans and receivables £M	Derivatives used for hedging £M	Total £M
Amounts receivable from customers	650.3	-	650.3	560.4	-	560.4
Derivative financial instruments	-	-	-	-	10.0	10.0
Cash and cash equivalents	24.2	-	24.2	17.9	-	17.9
Other receivables	15.4	-	15.4	19.1	-	19.1
Current tax assets	2.0	-	2.0	-	-	-
	691.9	-	691.9	597.4	10.0	607.4

Financial liabilities

An analysis of Group financial liabilities is presented below:

Group	2012			2011		
	Financial liabilities at amortised cost £M	Derivatives used for hedging £M	Total £M	Financial liabilities at amortised cost £M	Derivatives used for hedging £M	Total £M
Bonds	241.6	-	241.6	231.9	-	231.9
Bank borrowings	69.2	-	69.2	44.6	-	44.6
Derivative financial instruments	-	1.4	1.4	-	0.3	0.3
Trade and other payables	68.2	-	68.2	57.4	-	57.4
Current tax liabilities	21.1	-	21.1	25.8	-	25.8
	400.1	1.4	401.5	359.7	0.3	360.0

Notes to the Financial Statements continued

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	2012		2011	
	Fair value £M	Carrying value £M	Fair value £M	Carrying value £M
Financial assets				
Amounts receivable from customers	943.5	650.3	747.4	560.4
Derivative financial instruments	-	-	10.0	10.0
Cash and cash equivalents	24.2	24.2	17.9	17.9
Other receivables	15.4	15.4	19.1	19.1
Current tax assets	2.0	2.0	-	-
	985.1	691.9	794.4	607.4
Financial liabilities				
Bonds	272.8	241.6	229.0	231.9
Bank borrowings	69.2	69.2	44.6	44.6
Derivative financial instruments	1.4	1.4	0.3	0.3
Trade and other payables	68.2	68.2	57.4	57.4
Current tax liabilities	21.1	21.1	25.8	25.8
	432.7	401.5	357.1	360.0

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 their fair value. Bank borrowings can be repaid within six months if the Group decides not to roll over for further periods up to the contractual repayment date. The impact of discounting would therefore be negligible.

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 the 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 a money purchase scheme.

Scheme assets are stated at fair value at 31 December 2012. The major assumptions used by the actuary were:

Group and Company	2012 %	2011 %
Price inflation ('CPI')	2.4	2.5
Rate of increase to pensions in payment	2.9	3.0
Discount rate	4.5	4.7
Long-term rate of return:		
– equities	n/a	6.6
– bonds	n/a	4.7
– index-linked gilts	n/a	3.1
– overall (weighted average)	n/a	5.3

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 expected return on assets for 2012 has been derived using the long-term rate of return from 2011 in the table above. Upon transitioning to IAS 19 (revised) 'Employee benefits' (effective 1 January 2013), the income statement charge does not make any allowance for the expected return on assets, and instead uses the discount rate. Therefore, the long-term rate of return as at 31 December 2012 will not have any impact on the income statement.

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 £0.9 million.

The amounts recognised in the balance sheet are as follows:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Equities	16.2	17.3	3.7	3.8
Bonds	6.9	7.4	1.5	1.6
Index-linked gilts	4.5	4.9	1.0	1.1
Other	2.4	2.5	0.5	0.6
Total fair value of scheme assets	30.0	32.1	6.7	7.1
Present value of funded defined benefit obligations	(33.2)	(36.1)	(7.3)	(7.9)
Net obligation recognised in the balance sheet	(3.2)	(4.0)	(0.6)	(0.8)

The amounts recognised in the income statement are as follows:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Interest cost	1.5	2.0	0.3	0.4
Expected return on scheme assets	(1.5)	(2.2)	(0.3)	(0.5)
Net credit recognised in the income statement	-	(0.2)	-	(0.1)

In 2011 the net credit recognised in the income statement was included within administrative expenses.

Notes to the Financial Statements continued

24. Retirement benefit obligations continued

Movements in the fair value of scheme assets were as follows:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Fair value of scheme assets at 1 January	32.1	34.8	7.1	7.6
Expected return on scheme assets	1.5	2.2	0.3	0.5
Actuarial gains/(losses) on scheme assets	1.8	(1.2)	0.4	(0.3)
Contributions by the Group	0.2	5.9	0.1	1.4
Net benefits paid out	(5.6)	(0.7)	(1.2)	(0.1)
Plan settlements	-	(8.9)	-	(2.0)
Fair value of scheme assets at 31 December	30.0	32.1	6.7	7.1

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 £4.8 million, and a reduction in scheme liabilities of £8.9 million from the resulting transfers out.

Movements in the present value of the defined benefit obligation were as follows:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Defined benefit obligation at 1 January	(36.1)	(38.1)	(7.9)	(8.4)
Interest cost	(1.5)	(2.0)	(0.3)	(0.4)
Actuarial losses on scheme liabilities	(1.2)	(5.6)	(0.3)	(1.2)
Net benefits paid out	5.6	0.7	1.2	0.1
Plan settlements	-	8.9	-	2.0
Defined benefit obligation at 31 December	(33.2)	(36.1)	(7.3)	(7.9)

The actual return on scheme assets compared to the expected return is as follows:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Expected return on scheme assets	1.5	2.2	0.3	0.5
Actuarial gains/(losses) on scheme assets	1.8	(1.2)	0.4	(0.3)
Actual return on scheme assets	3.3	1.0	0.7	0.2

Actuarial gains and losses have been recognised through the statement of comprehensive income ('SOCl') in the period in which they occur.

An analysis of the amounts recognised in the SOCl is as follows:

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Actuarial gains/(losses) on scheme assets	1.8	(1.2)	0.4	(0.3)
Actuarial losses on scheme liabilities	(1.2)	(5.6)	(0.3)	(1.2)
Total gain/(loss) recognised in the SOCl in the year	0.6	(6.8)	0.1	(1.5)
Cumulative amount of losses recognised in the SOCl	(16.6)	(17.2)	(3.7)	(3.8)

24. Retirement benefit obligations continued

The history of experience adjustments is as follows:

Group	2012	2011	2010*	2009*	2008*
Experience gains/(losses) on scheme assets:					
- amount (£M)	1.8	(1.2)	1.6	3.2	(6.7)
- percentage of scheme assets (%)	6.0	(3.7)	4.6	10.4	(25.1)
Experience (losses)/gains on scheme liabilities:					
- amount (£M)	-	(1.3)	-	0.7	-
- percentage of scheme liabilities (%)	-	(3.6)	-	1.8	-
Company	2012	2011	2010*	2009*	2008*
Experience gains/(losses) on scheme assets:					
- amount (£M)	0.4	(0.3)	0.3	0.7	(1.4)
- percentage of scheme assets (%)	6.0	(4.2)	3.9	10.3	(23.7)
Experience (losses)/gains on scheme liabilities:					
- amount (£M)	-	(0.3)	-	0.2	-
- percentage of scheme liabilities (%)	-	(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 stakeholder pension plans 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 £0.8 million for the year ended 31 December 2012 (2011: £0.8 million). £nil of contributions were payable to the plan at the year end (2011: £nil).

In addition, an amount of £0.1 million (2011: £0.1 million) 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 Monte Carlo simulation model, however no TSR targets are assigned. 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 £2.0 million (2011: £1.9 million).

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	SAYE scheme	Performance Share Plans	SAYE scheme	Performance Share Plans	CSOPs	SAYE scheme	Performance Share Plans
Grant date	2008	2009	2009	2010	2010	2010	2011
Share price at award date	2.28	0.95–2.14	1.40	2.22–3.02	2.22–3.02	2.34	3.11–3.20
Base price for TSR	n/a	1.26–1.96	n/a	2.08–2.56	2.08–2.56	n/a	3.34–3.57
Exercise price	1.88	nil	1.12	nil	2.08–3.03	1.87	nil
Vesting period (years)	3, 5 and 7	3–4	3, 5 and 7	3–4	3–4	3, 5 and 7	3–4
Expected volatility	30.0%	30.0%	30.0%	67.8–68.7%	67.8–68.7%	68.1%	61.9–66.8%
Award life (years)	Up to 7	Up to 3	Up to 7	3	3	Up to 7	3
Expected life (years)	Up to 7	Up to 10	Up to 7	3	3	Up to 7	3
Risk-free rate	5.7%	5.7%	5.7%	1.8–2.3%	1.8–2.3%	1.8%	2.4%
Expected dividends expressed as a dividend yield	2.8%	2.8%	2.8%	2.0–2.6%	2.0–2.6%	2.5%	1.9–2.0%
Deferred portion	n/a	50.0%	n/a	50.0%	50.0%	n/a	50.0%
TSR threshold	n/a	30.0%	n/a	30.0%	30.0%	n/a	30.0%
TSR maximum target	n/a	60.0%	n/a	60.0%	60.0%	n/a	60.0%
Fair value per award (£)	0.68–0.85	0.44–1.62	0.42–0.53	1.35–1.95	0.91–1.24	1.41	1.73–1.84

Group and Company	CSOPs	SAYE schemes	Deferred Share Plan	Performance Share Plans	CSOPs	SAYE schemes	Deferred Share Plan
Grant date	2011	2011	2011	2012	2012	2012	2012
Share price at award date	3.11–3.21	3.23–3.33	3.18	2.48–3.61	2.48–3.61	2.56–3.01	2.62
Base price for TSR	3.34–3.57	n/a	n/a	1.93–2.61	1.93–2.61	n/a	n/a
Exercise price	3.11–3.21	2.59–2.66	nil	nil	2.47–3.64	1.98–2.37	nil
Vesting period (years)	3–4	3 and 5	3–10	3–4	3–4	3 and 5	3–10
Expected volatility	61.9–66.8%	n/a	n/a	51.1–66.4%	51.1–66.4%	65.5–66.2%	n/a
Award life (years)	3	Up to 5	3	3	3	Up to 5	3
Expected life (years)	3	Up to 5	3	3	3	Up to 5	3
Risk-free rate	2.4%	2.4%	n/a	1.5–2.2%	1.5–2.2%	1.5–2.2%	n/a
Expected dividends expressed as a dividend yield	1.9–2.0%	1.8–2.7%	n/a	2.0–2.7%	2.0–2.7%	2.4–2.7%	n/a
Deferred portion	50.0%	n/a	n/a	50.0%	50.0%	n/a	n/a
TSR threshold	30.0%	n/a	n/a	30.0%	30.0%	n/a	n/a
TSR maximum target	60.0%	n/a	n/a	60.0%	60.0%	n/a	n/a
Fair value per award (£)	1.17–1.27	1.46–1.47	n/a	1.57–2.59	0.86–1.50	1.82–2.19	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	SAYE scheme 2008		Performance Share Plans 2009		SAYE scheme 2009		Performance Share Plans 2010		CSOPs 2010		SAYE schemes 2010		Performance Share Plans 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	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2011	49,778	1.88	467,076	-	456,422	1.12	2,072,377	-	533,332	2.13	59,409	1.87	-	-
Granted	-	-	-	-	-	-	-	-	-	-	-	-	1,767,950	-
Expired/lapsed	-	-	(37,490)	-	(43,836)	1.12	(112,301)	-	(14,416)	2.13	(5,501)	1.87	(18,869)	-
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	53,908	1.87	1,749,081	-
Outstanding at 1 January 2012	42,630	1.88	429,586	-	409,006	1.12	1,960,076	-	518,916	2.13	53,908	1.87	1,749,081	-
Granted	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expired/lapsed	(8,936)	1.88	(84,125)	-	(6,674)	1.12	(135,961)	-	(14,416)	2.13	(5,769)	1.87	(107,154)	-
Exercised	-	-	(162,226)	-	(230,174)	1.12	-	-	-	-	(695)	1.87	-	-
Outstanding at 31 December 2012	33,694	1.88	183,235	-	172,158	1.12	1,824,115	-	504,500	2.13	47,444	1.87	1,641,927	-

Group	CSOPs 2011		SAYE schemes 2011		Deferred Share Plan 2011		Performance Share Plans 2012		CSOPs 2012		SAYE schemes 2012		Deferred Share Plan 2012	
	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	Number	Weighted average exercise price
Outstanding at 1 January 2011	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Granted	85,604	3.15	82,334	2.61	577,486	-	-	-	-	-	-	-	-	-
Expired/lapsed	-	-	(3,046)	2.61	-	-	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Outstanding at 31 December 2011	85,604	3.15	79,288	2.61	577,486	-	-	-	-	-	-	-	-	-
Outstanding at 1 January 2012	85,604	3.15	79,288	2.61	577,486	-	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	1,767,075	-	115,437	3.12	195,138	2.15	662,874	-
Expired/lapsed	-	-	(39,560)	2.61	-	-	(9,941)	-	-	-	(500)	2.15	-	-
Exercised	-	-	(869)	2.61	-	-	-	-	-	-	(45)	2.15	-	-
Outstanding at 31 December 2012	85,604	3.15	38,859	2.61	577,486	-	1,757,134	-	115,437	3.12	194,593	2.15	662,874	-

Notes to the Financial Statements continued

25. Share-based payments continued

Company	SAVE scheme 2008		Performance Share Plans 2009		SAVE scheme 2009		Performance Share Plans 2010		CSOPs 2010		SAVE scheme 2010		Performance Share Plans 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	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2011	23,692	1.88	105,140	-	259,115	1.12	975,735	-	366,976	2.13	43,210	1.87	-	-
Granted	-	-	-	-	-	-	-	-	-	-	-	-	788,677	-
Transferred	-	-	-	-	(25,506)	1.12	(52,143)	-	(14,416)	2.13	-	-	-	-
Expired/lapsed	-	-	-	-	(16,204)	1.12	(16,845)	-	-	-	(962)	1.87	(11,201)	-
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	42,248	1.87	777,476	-
Outstanding at 1 January 2012	18,586	1.88	105,140	-	217,405	1.12	906,747	-	352,560	2.13	42,248	1.87	777,476	-
Granted	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transferred	-	-	-	-	2,321	1.12	2,545	-	-	-	4,812	1.87	2,844	-
Expired/lapsed	-	-	(58,862)	-	(5,354)	1.12	-	-	-	-	(4,812)	1.87	-	-
Exercised	-	-	-	-	(114,178)	1.12	-	-	-	-	-	-	-	-
Outstanding at 31 December 2012	18,586	1.88	46,278	-	100,194	1.12	909,292	-	352,560	2.13	42,248	1.87	780,320	-

Company	CSOPs 2011		SAVE schemes 2011		Deferred Share Plan 2011		Performance Share Plans 2012		CSOPs 2012		SAVE schemes 2012		Deferred Share Plan 2012	
	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	Number	Weighted average exercise price
Outstanding at 1 January 2011	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Granted	28,631	3.15	37,337	2.61	274,990	-	-	-	-	-	-	-	-	-
Transferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expired/lapsed	-	-	(696)	2.61	-	-	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Outstanding at 31 December 2011	28,631	3.15	36,641	2.61	274,990	-	-	-	-	-	-	-	-	-
Outstanding at 1 January 2012	28,631	3.15	36,641	2.61	274,990	-	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	862,062	-	34,142	3.12	91,611	2.15	425,222	-
Transferred	-	-	5,955	2.61	-	-	4,593	-	-	-	15,169	2.15	-	-
Expired/lapsed	(6,271)	3.15	(15,394)	2.61	-	-	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Outstanding at 31 December 2012	22,360	3.15	27,202	2.61	274,990	-	866,655	-	34,142	3.12	106,780	2.15	425,222	-

26. Share capital

Company	2012 £M	2011 £M
At 1 January	25.7	25.7
Own shares acquired	(0.8)	-
At 31 December	24.9	25.7

Share capital consists of 249,425,087 fully paid up shares (2011: 257,217,888 fully paid up shares) at a nominal value of 10 pence. During the year the Company acquired £0.8 million of the issued share capital as part of its £25 million share buyback programme to optimise the amount of equity capital on the balance sheet and enhance shareholder returns.

All of the 7,792,801 shares acquired were cancelled.

The Company has one class of ordinary shares which carry no right to fixed income.

27. Reconciliation of profit after taxation to cash generated from operating activities

	Group		Company	
	2012 £M	2011 £M	2012 £M	2011 £M
Profit/(loss) after taxation	74.1	76.5	(19.5)	(11.5)
Adjusted for:				
- tax charge/(credit)	16.2	24.0	(5.7)	3.7
- finance costs	41.6	42.9	33.0	30.7
- finance income	-	-	(24.3)	(27.9)
- share-based payment charge	2.0	1.9	1.7	-
- defined benefit pension credit (note 24)	-	(0.2)	-	(0.1)
- depreciation of property, plant and equipment (note 13)	9.8	11.1	0.2	0.2
- (profit)/loss on disposal of property, plant and equipment (note 3)	(0.2)	3.0	-	-
- amortisation of intangible assets (note 11)	1.9	3.7	-	-
Changes in operating assets and liabilities:				
- amounts receivable from customers	(74.4)	(61.6)	-	-
- other receivables	4.1	(5.1)	(4.9)	4.1
- trade and other payables	10.0	6.6	70.5	33.4
- retirement benefit obligation	(0.2)	(5.9)	(0.1)	(1.4)
- derivative financial instruments	13.3	(14.2)	-	-
Cash generated from operating activities	98.2	82.7	50.9	31.2

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	2012 £M	2011 £M
In less than one year	15.1	12.4
In more than one year but not later than five years	25.6	32.0
In more than five years	-	-
	40.7	44.4

Other commitments are as follows:

Group	2012 £M	2011 £M
Capital expenditure commitments contracted with third parties but not provided for at 31 December	3.3	2.8

The Company has no commitments as at 31 December 2012 (2011: £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 £254.6 million (2011: £230.4 million). At 31 December 2012, the fixed and floating rate borrowings under these facilities amounted to £101.0 million (2011: £64.9 million). The directors do not expect any loss to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2012 was £nil (2011: £nil).

30. Related party transactions

IPF plc has various transactions with other companies in the Group. Details of these transactions along with any balances outstanding are shown below:

Company	2012			2011		
	Recharge of costs £M	Interest charge £M	Outstanding balance £M	Recharge of costs £M	Interest charge £M	Outstanding balance £M
Poland	-	-	-	0.1	-	-
Czech-Slovakia	-	-	-	-	-	-
Hungary	-	-	-	-	-	-
Mexico	-	3.8	0.1	-	6.0	0.2
Romania	-	-	-	-	-	-
Other UK companies	7.9	10.9	49.3	6.9	16.5	111.7
	7.9	14.7	49.4	7.0	22.5	111.9

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 25 April 2013 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
2012 final	6 March 2013	20 March 2013	22 March 2013	3 May 2013
2013 interim	30 July 2013	4 September 2013	6 September 2013	4 October 2013

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, or + 44 (0)20 8639 3367 (from outside the UK charged at the local standard rate). Lines are open 8.30am to 5.30pm Monday to Friday excluding Bank Holidays).

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

Year	Payment date	Interim dividend (p)	Payment date	Final dividend (p)	Total dividend (p)
2007	19 October 2007	1.90	23 May 2008	2.85	4.75
2008	3 October 2008	2.30	22 May 2009	3.40	5.70
2009	2 October 2009	2.30	21 May 2010	3.40	5.70
2010	8 October 2010	2.53	20 May 2011	3.74	6.27
2011	7 October 2011	3.00	1 June 2012	4.10	7.10
2012	5 October 2012	3.23	3 May 2013 ¹	4.51 ¹	7.74 ²

¹ Subject to shareholder approval on 25 April 2013.

² Includes final dividend, subject to shareholder approval on 25 April 2013.

Shareholder Information continued

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 or discuss anything further should contact Redmayne-Bentley LLP, 9 Bond Court, Leeds, LS1 2JZ (telephone 0113 200 6433).

Tax treatment depends on the specific circumstances of each individual and may be subject to change in the future.

*Redmayne-Bentley LLP is a limited liability partnership. Registered in England and Wales. Registered No: OC344361. Registered office: 9 Bond Court, Leeds LS1 2JZ. Members of the London Stock Exchange. Authorised and Regulated by the Financial Services Authority. VAT number: GB 613 1397 63.

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.

Boiler room scams

Unfortunately, we are aware that since 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).

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