Full-year Financial Report for the year ended 31 December 2016

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International Personal Finance plc
Full-year Financial Report for the year ended 31 December 2016
This announcement contains inside information

2016 key messages

- **Group profit before tax reduced in line with expectations to £92.6M**
  - Group profit before tax was £23.5M lower than 2015 reflecting lower home credit profit and higher investment in IPF Digital offset partially by a positive FX impact
  - Credit issued increased by 8% and revenue by 1%. Customer numbers reduced by 2%
  - Group impairment as a percentage of revenue at lower end of target range at 26.8%
- **Home credit**
  - Credit issued increased by 4%, led by strong growth in Southern Europe
  - Financial impact of Polish regulatory change in March 2016 within the expected range
  - Performance in Mexico much improved in H2
  - Cost-optimisation programme delivered underlying cost savings of around £11M
  - Slovakia collect out ahead of plan
- **IPF Digital**
  - Credit issued grew by 41% and customer numbers increased 45% to 194,000
  - Established markets delivered strong profit growth up £8.4M to £12.4M
  - New markets growing strongly - credit issued grew by 370% and customer numbers increased by 375% to 57,000
  - Launched business in Mexico
- **Regulation**
  - Proposal to reduce existing cap on non-interest charges on consumer loans published in Poland. Engaging with Polish Government ministries and interested parties aiming to achieve a more positive solution for consumers and businesses
- **Robust funding and balance sheet position**
  - £150M of headroom on debt facilities at December 2016 - £38M tax and associated interest paid in relation to Polish tax audit decision in January 2017
  - Equity to receivables of 45.7%
  - Proposed final dividend held at 7.8 pence per share

Group key statistics	FY 2015	**FY 2016**	YOY change at CER
Customers (000s) †**	2,563	**2,523**	(1.6%)
Credit issued (£M) †	993.3	**1,157.6**	8.1%
Revenue (£M) †	698.8	**755.9**	1.2%
Impairment % revenue†	25.6%	**26.8%**	(1.2) ppts
Cost-income ratio†	41.2%	**43.6%**	(2.4) ppts
PBT* (£M)	116.1	**92.6**	
Statutory PBT	100.2	**92.6**	
EPS* (pence)	37.1	**30.2**	
Receivables (£M)	802.4	**939.9**	
Net assets (£M)	327.2	**429.5**	
Equity to receivables ratio	40.8%	**45.7%**	

* Before exceptional items. †Excluding Slovakia ** Adjusted following change to treatment of very slow paying customers in our home credit businesses - see page 8.

Chief Executive Officer, Gerard Ryan, commented:
"It has been a difficult year for our Company and its shareholders. We delivered continued strong growth in Southern Europe and IPF Digital but faced further regulatory challenges in Europe, particularly in Poland. Performance in our Mexican home credit business was below our original expectations but actions taken delivered a significantly improved performance in the second half of the year. We expect the competitive and regulatory environment to remain challenging but we continue to see further opportunities to optimise our European home credit operations and will utilise the returns generated by these businesses to invest in growing Mexico home credit and IPF Digital."

Group performance overview

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

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

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

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

Market update

Demand for consumer credit increased in most of our markets, driven largely by digital lending, and we expect growth to continue albeit with some slowdown in developed markets over the medium term.

The demand for digital loans has led to a rapid increase in online providers and the competitive landscape remains intense, particularly in Europe. As 2016 progressed, we saw the proliferation of payday lenders in virtually all of our markets. In addition, we saw the risk appetite of banks in Europe grow and their advertising began to target our most creditworthy customers. Whilst digital lending has taken market share, we believe that over the longer term, it will co-exist with home credit. This is because the involvement of an agent at the customer's home allows us to gain a unique and greater understanding of their financial circumstances so we are able to lend where a remote lending business cannot.

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

Regulatory update

Regulators and politicians continue to be active in our European markets and have introduced new legislation and regulations around price and affordability. It is clear that pre-election populist agendas have also resulted in less consultation in the legislative process than would normally be the case.

In December, the Polish Ministry of Justice published a draft bill which, amongst other details, proposed to reduce the existing cap on non-interest charges on consumer loans that became effective in March 2016. Ordinarily, consumer credit legislation falls within the remit of the Ministry of Finance. The level of the current cap is: (i) a flat level of 25% of the loan value; and (ii) an additional cap of 30% per annum. The combined total of the flat 25% and the time-dependent 30% p.a. may not, in any event, exceed 100% of the loan value. Under the proposal, the flat level cap would be reduced to 10% of the loan value and the additional cap per annum would be reduced to 10%. The combined total of the flat 10% and the time-dependent 10% p.a. would not be able to exceed 75% of the loan value. During a 14-day public consultation, many organisations evaluated and commented on the draft bill, and we await an update from the Ministry of Justice on its proposals. We are engaging with Polish Government ministries and interested parties to try to achieve a more positive solution for consumers and businesses. Whereas previously it was expected that any new proposals could be implemented as early as January 2017, it now appears more likely that any potential changes would not be enacted until the second half of the year.

We reported the following regulatory matters in our half-year report and Q3 trading update. In Romania, more stringent and restrictive creditworthiness assessments for non-banking financial institutions and the requirement for the separation of duties between sales and credit vetting became effective at the end of 2016. These changes are expected to impact growth significantly in this market during 2017.

New licensing regulations were introduced in the Czech Republic in December 2016 with the key changes being the requirement for agents to have either a secondary education or at least three years' of financial service experience, a clear separation of duties between sales and credit decisioning teams and modifications to proof of income processes. We submitted our licence application, made changes to our business processes and are offering assistance to agents to become accredited. We continue to await the outcome of the appeal against new collections regulations introduced in Mexico in December 2015 banning weekend and late hour collections from customers' homes. Lenders do not have to comply with the law until the case is closed and we are working with interested parties to change the respective elements of the legislation to better reflect both the needs of customers and the businesses.

Strategy update

We provide credit responsibly to customers who want to borrow small amounts which they can repay in affordable instalments, either in their home to an agent or via their bank account through our money transfer or digital offerings. Whilst remote lending is growing, home credit will remain a relevant and important component of the consumer finance market for customers who value the convenience and flexibility of our agent service and the forbearance it offers.

We continue to operate in a dynamic environment and our strategy is focused on maximising our opportunities in an increasingly digital world, and one in which regulation and competition have intensified. We see significant growth opportunities in our Mexico home credit and IPF Digital businesses supported by the investment of capital generated by our European home credit businesses.

Growth businesses - IPF Digital and Mexico home credit

IPF Digital represents a strategic opportunity driven by increasing demand for digital loans, particularly among the best quality underserved consumers in our segment. We are focused on expanding this business, particularly in our four new markets of Poland, Spain, Australia and Mexico whilst optimising profitability in our established digital markets. We entered Mexico with a digital offering in September and together our four new markets are now serving 57,000 customers and growing strongly.

The strategic focus in our home credit business in Mexico is to expand our geographic footprint and develop new acquisition channels. While performance in the first half of 2016 was below our original expectation, the actions we implemented in response to this have delivered an improved performance in the second half which is described in the performance overview of this report. The six new branches opened in the first half of 2016 are delivering good customer and credit issued growth. We continue to believe that Mexico offers significant growth potential and intend to open a small number of branches in 2017 to further increase our geographic reach and expand our micro-business loans offering.

Established businesses - European home credit

Our European home credit businesses are highly cash and capital generative. We are managing these businesses to optimise cash flow to grow our IPF Digital and Mexico home credit businesses and fund returns to our shareholders.

Our cost optimisation programme in our European home credit businesses delivered cost savings of around £11M (annualised £14M) and a reduction of 430 roles during 2016, achieved principally through the introduction of our new sales and service organisation structure and right sizing our head offices. These savings mean that we were able both to absorb an increase in regulatory costs and investment in our Provident digital offering as well as reduce overall expenditure.

A core part of our strategy is to modernise our home credit operation through 'MyProvi' – our agent mobile technology programme which will support agent sales and collections, facilitate further efficiencies in our field teams and reduce administration costs. The live test of the collections app in Hungary, Poland and the Czech Republic began during the second half of the year and we plan to roll out the app to all agents in the Czech Republic and Hungary in the first half of 2017. A second phase roll out in Poland and Romania is planned later in the year.

We took the decision to cease lending to certain higher risk segments of customers following a review of customer profitability in Poland in Q4 2016 and expect this to positively impact on impairment going forward.

Our Provident-branded digital offering which leverages the strength of our leading brand is building momentum in Poland and at the end of 2016 we had around 8,000 customers that are served through this channel. We intend to extend this product offering to the Czech Republic in 2017.

Performance overview

Home credit

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

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

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

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

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

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

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

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

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

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

Poland-Lithuania

Poland-Lithuania delivered profit before tax of £56.2M in 2016 reflecting a £20.8M decrease in underlying profit offset partially by a positive FX movement of £8.0M. This performance reflects the expected impact of new total cost of credit legislation introduced in Poland in March 2016 together with reduced profit from debt sales, the introduction of the new bank tax in Poland and restructuring costs. Clarification of debt-to-income rules in Lithuania at the beginning of 2016 impacted business volumes significantly and following a detailed review we took the decision to move to a fully digital business in Lithuania operated by IPF Digital. The lower cost distribution of our digital operation means it is more capable of adapting to these requirements and we will therefore focus on serving the market solely through IPF Digital. Consequently, a charge of £3.2M in respect of estimated exit costs has been included in the 2016 profit and loss account.

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

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

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

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

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

Czech Republic

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

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

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

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

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

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

Southern Europe

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

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

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

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

As noted in the regulatory section of this announcement, new creditworthiness assessments for non-banking financial institutions in Romania are expected to impact rates of growth significantly in this market. As in our other European home credit markets, we will look to attain further cost-efficiencies particularly through the rollout of agent mobile technology.

Mexico

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

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

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

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

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

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

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

Slovakia

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

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

IPF Digital

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

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

The 2015 P&L includes ten and a half months of trading of MCB Finance businesses following IPF's acquisition of that business in February 2015. Year-on-year growth measures of performance in the commentary have been restated to illustrate growth on a like-for-like basis.

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

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

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

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

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

Established markets

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

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

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

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

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

New markets

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

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

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

Head office

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

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

Taxation

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

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

Funding and balance sheet

We have a strong funding position with a balanced debt portfolio including a range of bonds at competitive cost across a number of currencies, wholesale and retail, with varying maturities; and a range of bank facilities from a core group of banks. At 31 December 2016 we had total debt facilities of £775M (£569M bonds and £206M bank facilities) and borrowings of £623M, with headroom on undrawn bank facilities of £152M. We have significant long-term funding in place, with £482M of bonds maturing in 2020/21, and no bond maturities in 2017. Drawings on the bank facilities have been used for total Polish tax payments in respect of the tax years 2008 and 2009 of £38M in January 2017. Our balance sheet remains robust, with an equity to receivables capital ratio at 31 December 2016 of 45.7% against our target of around 40%.

Dividend

Subject to shareholder approval, a final dividend of 7.8 pence per share will be payable which will bring the full year dividend to 12.4 pence per share (2015: 12.4 pence per share). The full year dividend of 12.4 pence per share represents a total payment equivalent to approximately 41% of post-tax earnings for the full year 2016 which is above our target pay-out rate of 35%. The final dividend will be paid on 12 May 2017 to shareholders on the register at the close of business on 18 April 2017. The shares will be marked ex-dividend on 13 April 2017.

Outlook

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

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

Note

This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The report should not be relied on by any other party or for any other purpose. The report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Percentage change figures for all performance measures, other than profit before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate (CER) for 2016 in order to present the underlying performance variance.

International Personal Finance plc

Consolidated income statement for the year ended 31 December 2016

	Notes	**2016 Pre-exceptional items £M**	**2016 Exceptional items (note 8) £M**	**2016 £M**
Revenue	4	**763.4**	**-**	**763.4**
Impairment	4	**(187.5)**	**-**	**(187.5)**
Revenue less impairment		**575.9**	**-**	**575.9**
Finance costs		**(47.1)**	**-**	**(47.1)**
Other operating costs		**(130.7)**	**-**	**(130.7)**
Administrative expenses		**(305.5)**	**-**	**(305.5)**
Total costs		**(483.3)**	**-**	**(483.3)**
Profit before taxation	4	**92.6**	**-**	**92.6**
Tax expense – UK		**(3.1)**	**-**	**(3.1)**
Tax expense – overseas		**(22.6)**	**-**	**(22.6)**
Total tax expense	5	**(25.7)**	**-**	**(25.7)**
Profit after taxation attributable to owners of the Company		**66.9**	**-**	**66.9**

Consolidated income statement for the year ended 31 December 2015

	Notes	2015 Pre-exceptional items £M	2015 Exceptional items (note 8) £M	2015 £M
Revenue	4	735.4	-	735.4
Impairment	4	(188.9)	(10.3)	(199.2)
Revenue less impairment		546.5	(10.3)	536.2
Finance costs		(41.6)	-	(41.6)
Other operating costs		(116.8)	-	(116.8)
Administrative expenses		(272.0)	(5.6)	(277.6)
Total costs		(430.4)	(5.6)	(436.0)
Profit before taxation	4	116.1	(15.9)	100.2
Tax (expense)/income – UK		(2.1)	0.6	(1.5)
Tax expense – overseas		(29.1)	(7.1)	(36.2)
Total tax expense	5	(31.2)	(6.5)	(37.7)
Profit after taxation attributable to owners of the Company		84.9	(22.4)	62.5

The profit for the period is from continuing operations.

The notes to the financial information are an integral part of this consolidated financial information.

Earnings per share - statutory

	Notes	**2016 pence**	2015 pence
Basic	6	**30.2**	27.3
Diluted	6	**29.4**	26.6

Earnings per share – adjusted for exceptional items

	Notes	**2016 pence**	2015 pence
Basic	6	**30.2**	37.1

Statement of comprehensive income for the year ended 31 December

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

The notes to the financial information are an integral part of this consolidated financial information.

Balance sheet as at 31 December

	Notes	**2016 £M**	2015 £M
Assets			
Non-current assets			
Goodwill	9	**23.3**	20.1
Intangible assets	10	**32.6**	25.6
Property, plant and equipment	11	**23.4**	24.3
Deferred tax assets	12	**112.0**	82.2
		191.3	152.2
Current assets			
Amounts receivable from customers			
- due within one year		**808.3**	718.9
- due in more than one year		**131.6**	83.5
	13	**939.9**	802.4
Derivative financial instruments	15	**15.4**	11.5
Cash and cash equivalents		**43.4**	39.9
Other receivables		**20.8**	14.8
Current tax assets		**3.1**	1.3
		1,022.6	869.9
Total assets		**1,213.9**	1,022.1
Liabilities			
Current liabilities			
Borrowings	14	**(22.4)**	(22.3)
Derivative financial instruments	15	**(4.7)**	(2.8)
Trade and other payables		**(123.2)**	(95.5)
Current tax liabilities		**(16.5)**	(30.9)
		(166.8)	(151.5)
Non-current liabilities			
Retirement benefit obligation	16	**(9.1)**	(0.2)
Deferred tax liabilities	12	**(8.1)**	(8.6)
Borrowings	14	**(600.4)**	(534.6)
		(617.6)	(543.4)
Total liabilities		**(784.4)**	(694.9)
Net assets		**429.5**	327.2
Equity attributable to owners of the Company			
Called-up share capital		**23.4**	23.4
Other reserve		**(22.5)**	(22.5)
Foreign exchange reserve		**8.7**	(56.4)
Hedging reserve		**1.1**	(0.3)
Own shares		**(50.8)**	(58.9)
Capital redemption reserve		**2.3**	2.3
Retained earnings		**467.3**	439.6
Total equity		**429.5**	327.2

The notes to the financial information are an integral part of this consolidated financial information.

Statement of changes in equity

	Called-up share capital	Other reserve	Other reserves *	Retained earnings	Total equity
	£M	£M	£M	£M	£M
At 1 January 2015	24.0	(22.5)	(73.5)	433.6	361.6
Comprehensive income:					
Profit after taxation for the year	-	-	-	62.5	62.5
Other comprehensive (expense)/income:					
Exchange losses on foreign currency translation	-	-	(23.9)	-	(23.9)
Net fair value losses – cash flow hedges	-	-	(1.0)	-	(1.0)
Actuarial gains on retirement benefit obligation	-	-	-	0.7	0.7
Tax credit/(charge) on other comprehensive income	-	-	0.3	(0.1)	0.2
Total other comprehensive (expense)/income	-	-	(24.6)	0.6	(24.0)
Total comprehensive (expense)/income for the year	-	-	(24.6)	63.1	38.5
Transactions with owners:					
Share-based payment adjustment to reserves	-	-	-	6.2	6.2
Deferred tax on share-based payment transactions	-	-	-	(0.3)	(0.3)
Own shares acquired	(0.6)	-	(28.3)	(21.3)	(50.2)
Shares granted from treasury and employee trust	-	-	13.1	(13.1)	-
Dividends paid to Company shareholders	-	-	-	(28.6)	(28.6)
At 31 December 2015	23.4	(22.5)	(113.3)	439.6	327.2
At 1 January 2016	**23.4**	**(22.5)**	**(113.3)**	**439.6**	**327.2**
Comprehensive income:					
Profit after taxation for the year	**-**	**-**	**-**	**66.9**	**66.9**
Other comprehensive income/(expense):					
Exchange gains on foreign currency translation	**-**	**-**	**65.1**	**-**	**65.1**
Net fair value gains – cash flow hedges	**-**	**-**	**1.5**	**-**	**1.5**
Actuarial losses on retirement benefit obligation	**-**	**-**	**-**	**(10.0)**	**(10.0)**
Tax (charge)/credit on other comprehensive income	**-**	**-**	**(0.1)**	**1.9**	**1.8**
Total other comprehensive income/(expense)	**-**	**-**	**66.5**	**(8.1)**	**58.4**
Total comprehensive income for the year	**-**	**-**	**66.5**	**58.8**	**125.3**
Transactions with owners:					
Share-based payment adjustment to reserves	**-**	**-**	**-**	**4.4**	**4.4**
Shares granted from treasury and employee trust	**-**	**-**	**8.1**	**(8.1)**	**-**
Dividends paid to Company shareholders	**-**	**-**	**-**	**(27.4)**	**(27.4)**
At 31 December 2016	**23.4**	**(22.5)**	**(38.7)**	**467.3**	**429.5**

* Includes foreign exchange reserve, hedging reserve, capital redemption reserve and amounts paid to acquire shares held in treasury and by employee trust.

Cash flow statement for the year ended 31 December

	2016 £M	2015 £M
Cash flows from operating activities		
Cash generated from operating activities	**132.5**	100.3
Finance costs paid	**(44.6)**	(40.9)
Income tax paid	**(66.1)**	(37.0)
Net cash generated from operating activities	**21.8**	22.4
Cash flows from investing activities		
Acquisition of subsidiary, net of cash and cash equivalents	**-**	(21.0)
Purchases of property, plant and equipment	**(8.3)**	(8.2)
Proceeds from sale of property, plant and equipment	**-**	0.4
Purchases of intangible assets	**(15.8)**	(18.9)
Net cash used in investing activities	**(24.1)**	(47.7)
Net cash used in operating and investing activities	**(2.3)**	(25.3)
Cash flows from financing activities		
Proceeds from borrowings	**69.9**	214.9
Repayment of borrowings	**(41.7)**	(138.2)
Dividends paid to Company shareholders	**(27.4)**	(28.6)
Acquisition of own shares	**-**	(50.2)
Cash received on share options exercised	**-**	0.7
Net cash generated from/(used in) financing activities	**0.8**	(1.4)
Net decrease in cash and cash equivalents	**(1.5)**	(26.7)
Cash and cash equivalents at beginning of year	**39.9**	68.8
Exchange gains/(losses) on cash and cash equivalents	**5.0**	(2.2)
Cash and cash equivalents at end of year	**43.4**	39.9

Notes to the financial information for the year ended 31 December 2016

1. Basis of preparation

The financial information, which comprises the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, is derived from the full Group Financial Statements for the year ended 31 December 2016, which have been prepared in accordance with European Union endorsed International Financial Reporting Standards ('IFRSs') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. It does not constitute full Financial Statements within the meaning of section 434 of the Companies Act 2006. This financial information has been agreed with the auditor for release.

Statutory Financial Statements for the year ended 31 December 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's annual general meeting. The auditor has reported on those Financial Statements: its reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly they continue to adopt the going concern basis in preparing this financial information (see note 23 for further details).

The accounting policies used in completing this financial information have been consistently applied in all periods shown. These accounting policies are detailed in the Group's Financial Statements for the year ended 31 December 2016 which can be found on the Group's website (www.ipfin.co.uk).

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2016 but do not have any impact on the Group:

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

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

- IFRS 9 'Financial instruments'. This standard replaces IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and will affect the Group's accounting for its financial assets. The mandatory implementation date for this standard is 1 January 2018 however it has not yet been endorsed by the European Union. The Group is in the process of assessing IFRS 9's full impact;
- IFRS 15 'Revenue from contracts with customers';
- IFRS 15 (amendment) 'Clarifications to IFRS 15 Revenue from Contracts with Customers';
- Amendments to IAS 12 'Recognition of deferred tax assets for unrealised losses';

Notes to the financial information for the year ended 31 December 2016 (continued)

- IFRS 16 'Leases';
- Annual Improvements to IFRSs: 2014-2016 cycle;
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 'Transfers of investment property';
- IFRS 2 (amendment)'Classification and Measurement of Share-based Payment Transactions';
- IAS 7 (amendment) 'Disclosure initiative'; and
- IAS 12 (amendment) 'Recognition of Deferred Tax Assets for Unrealised Losses'.

2. Principal risks and uncertainties

In accordance with the Companies Act 2006, a description of the principal risks and uncertainties (and the mitigating factors in place in respect of these) is included below. Effective management of risks, uncertainties and opportunities is critical to our business in order to deliver long-term shareholder value and protect our people, assets and reputation. In 2016, we continued to face a challenging external environment, particularly from changing regulation and competition. Internally, our operational governance framework and risk management processes are continually reviewed to ensure that where areas of improvement are identified, a plan of action is put in place and can become a key focus for the Board. The effectiveness of operating these processes is monitored by the Audit and Risk Committee on behalf of the Board.

Notes to the financial information for the year ended 31 December 2016 (continued)

2. Principal risks and uncertainties (continued)

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

The risks facing the business by risk category are:

Risk Category	Definition	Risks	Description
MARKET CONDITIONS	The risk that we cannot identify, respond to, comply with or take advantage of external market conditions.	**Regulatory**	
		• Legal compliance * • Future legal and regulatory development *	• Compliance with existing laws and regulations • Anticipating and responding to changes to laws and regulations and their interpretation
		Competition and product proposition	
		• Competition* • Product proposition*	• Responding to changes in market conditions • Meeting customer requirements
		Funding, market and counterparty	
		• Funding* • Interest rate and currency • Counterparty • Taxation* • World economic environment*	• Funding availability to meet business needs • Market volatility impacting performance and asset values • Loss of banking partner • Changes to, or interpretation of, tax legislation • Adapting to economic conditions
STAKEHOLDER	The risk that key stakeholders take a negative view of the business as a direct result of our actions or our inability to effectively manage their perception of the Group.	• Reputation* • Customer service	• Reputational damage • Maintenance of customer service standards
OPERATIONAL	The risk of unacceptable losses as a result of inadequacies or failures in our internal core processes, systems or people behaviours.	• Credit* • Safety* • People* • Business continuity* and information security* • Financial and performance reporting • Technology • Fraud	• Customers fail to repay • Harm to our agents/employees • Calibre of people • Recoverability and security of systems and processes • Failure of financial reporting systems • Maintenance of effective technology • Theft or fraud loss
BUSINESS DEVELOPMENT	The risk that our earnings are impacted adversely by a sub-optimal business strategy or the sub-optimal implementation of that strategy, due to internal or external factors.	• Change management* • Brand	• Delivery of strategic initiatives • Strength of our customer brands

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

Notes to the financial information for the year ended 31 December 2016 (continued)

2. Principal risks and uncertainties (continued)

Key:	Risk Environment Improving ↑	Risk Environment Stable ↔	Risk Environment Worsening ↓

Risk	Relevance to Strategy	Mitigation	Commentary
REGULATORY We suffer losses or fail to optimise profitable growth due to a failure to operate in compliance with, or effectively anticipate changes in, all applicable laws and regulations, or a regulator interpreting these in a different way. **Objective** We aim to ensure that effective arrangements are in place to enable us to comply with legal and regulatory obligations and take assessed and fully informed commercial risks.	Changes in regulation, differences in interpretation or clarification/ enforcement of laws not previously enforced by courts and other bodies can lead to challenge of our products/practices. We must keep up to speed with legal and regulatory developments to ensure we maintain compliance, remain competitive and provide value for our customers. **Likelihood** The frequency of legal and regulatory change and the likelihood of challenge vary by market. In 2016, notable changes occurred in Poland, Lithuania, the Czech Republic and Romania.	We have highly skilled and experienced legal and public affairs teams at Group level and in each of our markets. Expert third-party advisors are used where necessary. Strong relationships are maintained with regulators and other stakeholders. Co-ordinated legal and public affairs team, at a Group level and in each market, monitor political, legislative and regulatory developments.	↓ **Lead Responsibility: Chief Executive Officer** A number of legislative and regulatory changes continue to be proposed and debated, particularly in Europe. As stated elsewhere in this report, these have had a significant impact on our businesses in Slovakia, Poland and Lithuania in particular. The business is adapting, where possible, to changes announced in 2016, but the scale of the risk remains substantial and we must continue to be vigilant and flexible in our response. Further enhancements to our approach to governing this risk were implemented during 2016, including increased level of monitoring of regulatory matters, strengthened anticipation and engagement capabilities in-market and renewed association and sector reputation strategy.
CHANGE MANAGEMENT We suffer losses or fail to optimise profitable growth due to a failure to manage change in an effective manner. **Objective** We aim to effectively manage the design, delivery and benefits realisation of major change initiatives and deliver according to requirements, budgets and timescales.	A core part of our strategy is to modernise our home credit operation and invest in digital developments. Effective management of the initiatives within this programme is essential. **Likelihood** Our change programme is complex covering numerous markets. Recent changes to the delivery structure have been designed to minimise the likelihood of programme-wide issues.	Executive Director and Country Manager level prioritisation of key initiatives. Standard project management methodology principles defined. Governance structure in place to oversee ongoing change at Group and market levels.	↔ **Lead Responsibility: Chief Executive Officer** We initiated a change programme encompassing a broader technological remit and we are preparing for a rollout of a mobile application to agents in 2017. A revised IT strategy was launched to ensure we can respond effectively to changing regulatory, competitor and customer behaviour dynamics.

Notes to the financial information for the year ended 31 December 2016 (continued)

2. Principal risks and uncertainties (continued)

Key:	Risk Environment Improving ↑	Risk Environment Stable ↔	Risk Environment Worsening ↓

Risk	Relevance to Strategy	Mitigation	Commentary
PEOPLE Our strategy is impacted by not having sufficient depth and quality of people or being unable to retain key people and treat them in accordance with our values and ethical standards. **Objective** We aim to have sufficient depth of personnel to ensure we can meet our growth objectives.	Our strategy emphasises segmentation of our operations into 'Growth' and 'Returns' focused businesses to reflect the fact that they are at different stages of maturity. In order to achieve our goals, we must continue to attract, engage, retain and reward the right people. **Likelihood** We have developed significant strength-in-depth of talent across the Group and there is a strong history or talent moving between markets that reduces the likelihood of key vacancies.	Strategic people review processes (People and Organisational Planning) operate throughout the Group. Group-wide personal development review process and continuous development through targeted leadership programmes. Periodic employee and agent engagement surveys and improvement plans.	↔ **Lead Responsibility: Chief Executive Officer** Our people strategy focuses on creating a culture of high engagement, identifying and nurturing talent and empowering people. We made significant changes to field sales and services organisational structures during 2016. This was achieved without any significant impact on employee and agent stability and we believe the medium-term impact will increase the skills, engagement and stability of our people. In 2016, our agents in Romania were made employees to comply with new legislation.
COMPETITION AND PRODUCT PROPOSITION We suffer losses or fail to optimise profitable growth through not responding to the competitive environment or failing to ensure our proposition meets customer needs. **Objective** We aim to ensure we understand competitive threats and deliver customer focused products to drive growth.	In an environment of increasing competition and broadening customer choice, ensuring our product meets customers' needs is critical to delivering growth. **Likelihood** Competition varies by market. In 2016, the impact of competitive activity, both from home credit and digital lenders, was particularly notable in Poland, the Czech Republic and Romania.	Regular monitoring of competitors and their offerings, advertising and share of voice in our markets. Regular surveys of customer views on our product offerings. Product development committees established across the Group to manage product change and introduce new products.	↓ **Lead Responsibility: Chief Executive Officer** Competition continues to increase. The growth of IPF Digital continues to diversify our portfolio. During 2016 we opened new digital businesses in Spain and Mexico, and IPF Digital is growing strongly. We launched a number of product offerings in 2016 within our home credit markets giving customers more choice and to comply with new regulations.

Notes to the financial information for the year ended 31 December 2016 (continued)

2. Principal risks and uncertainties (continued)

Key:	Risk Environment Improving ↑	Risk Environment Stable ↔	Risk Environment Worsening ↓

Risk	Relevance to Strategy	Mitigation	Commentary
BUSINESS CONTINUITY AND INFORMATION SECURITY			↔ **Lead Responsibility: Chief Executive Officer**
We suffer losses or fail to optimise profitable growth due to a failure of our systems, suppliers or processes, or due to the loss or theft of sensitive information. **Objective** We aim to maintain adequate arrangements and controls that reduce the threat of service disruption and the risk of data loss to as low as is reasonably practicable.	Globally, we have 2.5 million customers and we record, update and maintain data for each of them on a regular basis, often weekly. The availability of this data, and the continued operation of our systems and processes, is essential to the effective operation of our business and the security of our customer information. **Likelihood** While the external threat to our systems is increasing in the digital age, the tools in place reduce the likelihood of a significant failure or information loss.	Executive Director and Country Manager level prioritisation of key initiatives. Standard project management methodology principles defined. Governance structure in place to oversee ongoing change at Group and market levels.	We continue to enhance our systems and processes to ensure data is as secure as practicable and that any disruption to the business is minimised. Information security capability was further enhanced in 2016 including implementation of technical solutions to prevent and detect weaknesses. A disaster recovery assessment and testing programme was also undertaken in the year. Further enhancements to our protection are planned for 2017.
REPUTATION			↔
We suffer financial or reputational damage due to our methods of operation, ill-informed comment or malpractice. **Objective** We aim to promote a positive reputation that will enable the Group to achieve its strategic aims.	Our reputation can have an impact on both customer sentiment and the engagement of key stakeholders, impacting our ability to grow. **Likelihood** We maintain strong relationships with stakeholders across the Group in order to minimise the likelihood of an event leading to unanticipated reputational impact.	Group Reputation and Regulation Committee. Clearly defined corporate values and ethical standards which are communicated throughout the organisation. Regular monitoring of reputation indicators.	**Lead Responsibility: Chief Executive Officer** Our businesses continue to achieve awards for ethical and effective operations. In light of increased regulatory challenges and potential legislative changes we face, we communicated our position to investors and other key stakeholders.

Notes to the financial information for the year ended 31 December 2016 (continued)

2. Principal risks and uncertainties (continued)

Key:	Risk Environment Improving ↑	Risk Environment Stable ↔	Risk Environment Worsening ↓

Risk	Relevance to Strategy	Mitigation	Commentary
WORLD ECONOMIC ENVIRONMENT We suffer financial loss as a result of a failure to identify and adapt to changing economic conditions adequately. **Objective** We aim to have business processes that allow us to respond to changes in economic conditions and optimise business performance.	Changes in economic conditions have a direct impact on our customers' ability to make repayments. **Likelihood** While we operate in numerous markets, the likelihood of a change in economic markets that we are unable to respond to and that impacts our strategy is minimised by our short-term lending model. The results of the Brexit vote and US presidential election have created global market uncertainty and there may be longer-term impacts on global economic growth.	Treasury and credit committees review economic indicators. Daily monitoring of economic, political and national news briefings. Strong, personal customer relationships inform us of individual customer circumstances.	↓ **Lead Responsibility: Chief Financial Officer** There were stable macroeconomic conditions in our markets in 2016. GDP forecasts for 2017 are for a continuation of recent moderate growth in our European markets but for a slowdown in Mexico. We continue to monitor the impact of political developments including Brexit and the change of US President on financial markets and macroeconomic conditions.
SAFETY The risk of personal accident to, or assault on, our agents or employees. **Objective** We aim to maintain adequate arrangements that reduce the risk to as low as is reasonably practicable.	A significant element of our business model involves our agents and employees interacting with our customers in their homes or travelling to numerous locations daily. Their safety is paramount to us. **Likelihood** The likelihood of an individual incident depends on many factors, including the local environment. We strive to ensure that our agents and employees can carry out their work without risk of harm.	Group and market committees and annual safety survey. Bi-annual risk mapping for each agency including mitigation planning and field safety training. Annual self-certification of safety compliance by managers. Quarterly branch safety meetings. Role-specific training and competence matrix. Safety management systems based on internationally recognised standards.	↔ **Lead Responsibility: Chief Executive Officer** We continued to make progress in our safety management systems and maintained our OHSAS certification in all established home credit businesses. Safety continues to be a significant area of focus for the Group.

Notes to the financial information for the year ended 31 December 2016 (continued)

2. Principal risks and uncertainties (continued)

Key:	Risk Environment Improving ↑	Risk Environment Stable ↔	Risk Environment Worsening ↓

Risk	Relevance to Strategy	Mitigation	Commentary
TAXATION			↓
We suffer additional taxation or financial penalties associated with failure to comply with tax legislation or adopting an interpretation of the law that cannot be sustained. **Objective** We aim to generate shareholder value through effective management of tax while acting as a good corporate citizen.	Against a backdrop of increasing fiscal challenges for most economies, many authorities are turning to corporate taxpayers to increase revenues, either via taxation reforms or through to changes to interpretations of existing legislation. **Likelihood** The likelihood of changes or challenges arising from tax legislation varies by market. Globally, OECD and EU-led developments may lead to an increase in transfer pricing audits and this was seen in 2016 with the commencement of a transfer pricing audit in Slovakia.	Binding rulings or clearances obtained from authorities where appropriate. External advisors used for all material tax transactions. Qualified and experienced tax teams at Group level and in-market.	**Lead Responsibility: Chief Financial Officer** We continued to ensure our interpretation of taxation legislation is defendable through maintaining a strong governance framework, ensuring each mature market and the Group employs tax professionals, and taking external advice where relevant. We have ongoing tax audits in Poland, Mexico and Slovakia. In early 2017 we received an adverse decision from the Polish Tax Authority in respect of 2008 and 2009 on two matters that had been accepted as correct during tax audits of previous years. We have lodged appeals against the decisions and were required to pay the assessments totalling c.£38 million. In addition, possible further payments could be required in respect of future years that are still open to audit, including 2010 where an audit has already been opened, and a decision is awaited.
CREDIT			↔
The risk of the Group suffering financial loss if its customers fail to meet their contracted obligations. **Objective** We aim to maintain credit and collections policies and regularly monitor credit performance.	With the expansion in IPF Digital and Mexican home credit businesses, it is important that we keep control of credit losses in order to achieve our intended returns. For the European home credit businesses, we need to be certain that we are writing profitable business to maximise return. **Likelihood** The control environment in place means that we will see issues quickly and the systems in place mean that we can change credit settings quickly, and therefore the likelihood of suffering large losses is low.	Weekly credit reporting on the quality of business at time of issue as well as overall portfolio. This feeds into weekly performance calls between each business and the Group Credit Director. In addition, there are monthly local credit committees, a monthly Group credit committee and monthly performance calls between each business and the senior team. When a new change is introduced, the credit systems allow for a testing approach that gives direct comparison of the current 'champion' regime against the new 'challenger'.	**Lead Responsibility: Chief Financial Officer** For IPF Digital, the risk environment is generally stable with low loss rates. For our Mexico home credit business, we saw an increase of loss rates in the second half of 2016 due largely to an operational factor and this is now improved. For our European home credit markets, the credit risk background is stable.

Notes to the financial information for the year ended 31 December 2016 (continued)

2. Principal risks and uncertainties (continued)

Key:	Risk Environment Improving ↑	Risk Environment Stable ↔	Risk Environment Worsening ↓
Risk	**Relevance to Strategy**	**Mitigation**	**Commentary**
FUNDING, MARKET AND COUNTERPARTY The risk of insufficient availability of funding, unfavourable pricing, a breach of debt facility convenants; or that performance is significantly impacted by interest rate or currency movements, or failure of a banking counterparty. **Objective** We aim to maintain a robust funding position, and limit the impact of interest rate and currency movements and exposure to financial counterparties.	Funding at appropriate cost and on appropriate terms and management of financial market risk is necessary for the future growth of the business. **Likelihood** Board approved policies require us to maintain a resilient funding position with good headroom on undrawn bank facilities; appropriate hedging of market risk, and appropriate limits to counterparty risk.	Adherence to Board approved policies monitored through Treasury Committee, Finance Leadership Team and regular Board reporting. Funding plans presented as part of budget planning. Strong relationships maintained with debt providers.	↔ **Lead Responsibility: Chief Financial Officer** Our business has a strong funding position with good headroom on bank facilities and long-term funding in place. Hedging of market risk and limits on counterparty risk in line with policies.

3. Related parties

The Group has not entered into any material transactions with related parties during the year ended 31 December 2016.

Notes to the financial information for the year ended 31 December 2016 (continued)

4. Segmental analysis

Geographical segments

	2016 **£M**	2015 £M
Revenue		
Home credit		
Poland-Lithuania	**270.7**	267.4
Czech-Slovakia	**70.7**	106.5
Southern Europe	**177.4**	155.1
Mexico	**186.5**	175.3
	705.3	704.3
Digital	**58.1**	31.1
Revenue	**763.4**	735.4
Impairment		
Home credit		
Poland-Lithuania	**70.0**	61.3
Czech-Slovakia	**(5.8)**	27.7
Southern Europe	**37.8**	35.0
Mexico	**68.0**	56.0
	170.0	180.0
Digital	**17.5**	8.9
Impairment – pre-exceptional items	**187.5**	188.9
Exceptional items	**-**	10.3
Impairment	**187.5**	199.2
Profit before taxation		
Home credit		
Poland-Lithuania	**56.2**	69.0
Czech-Slovakia	**12.0**	19.2
Southern Europe	**36.9**	26.6
Mexico	**11.7**	21.9
Spain	**-**	(1.8)
	116.8	134.9
Digital	**(9.3)**	(4.2)
UK costs*	**(14.9)**	(14.6)
Profit before taxation – pre-exceptional items	**92.6**	116.1
Exceptional items	**-**	(15.9)
Profit before taxation	**92.6**	100.2

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

4. Segmental analysis (continued)

	2016 £M	2015 £M
Segment assets		
Home credit		
Poland-Lithuania	**397.6**	356.3
Czech-Slovakia	**106.6**	135.4
Southern Europe	**265.2**	200.8
Mexico	**223.1**	200.5
	992.5	893.0
Digital	**148.7**	91.6
UK	**72.7**	37.5
	1,213.9	1,022.1
Segment liabilities		
Home credit		
Poland-Lithuania	**147.1**	155.0
Czech-Slovakia	**87.5**	113.6
Southern Europe	**147.5**	117.9
Mexico	**170.0**	146.1
	552.1	532.6
Digital	**120.7**	59.1
UK	**111.6**	103.2
	784.4	694.9
Capital expenditure		
Home credit		
Poland-Lithuania	**1.5**	1.9
Czech-Slovakia	**0.6**	0.9
Southern Europe	**1.6**	2.6
Mexico	**2.9**	2.1
Spain	**-**	0.1
	6.6	7.6
Digital	**0.4**	0.3
UK	**1.3**	0.3
	8.3	8.2
Depreciation		
Home Credit		
Poland-Lithuania	**1.8**	1.4
Czech-Slovakia	**1.0**	1.7
Southern Europe	**1.9**	1.6
Mexico	**1.8**	1.5
	6.5	6.2
Digital	**0.1**	0.1
UK	**3.5**	4.3
	10.1	10.6

5. Tax expense

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

The Group is currently subject to a tax audit with respect to Provident Polska s.a. for the years 2008 - 2010. The 2010 audit commenced during 2016 and a decision is awaited. For 2008 and 2009, decisions were received in January 2017 and have been appealed. Further details regarding these decisions are set out on page 16. The Group is also subject to audits in Mexico (regarding 2011) and Slovakia (regarding 2014-2015), all of which are still at the information gathering stage.

6. Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the earnings attributable to shareholders of £66.9M (2015: £62.5M) by the weighted average number of shares in issue during the period of 221.2M (2015: 229.1M) which has been adjusted to exclude the weighted average number of shares held in treasury and by the employee trust.

For diluted EPS, the weighted average number of IPF plc ordinary shares in issue is adjusted to 227.5M to assume conversion of all dilutive potential ordinary share options relating to employees of the Group (2015: adjusted to 235.4M).

	2016 pence	2015 pence
Basic EPS	**30.2**	27.3
Dilutive effect of awards	**(0.8)**	(0.7)
Diluted EPS	**29.4**	26.6

The 2015 adjusted earnings per share, of 37.1 pence, shown in the financial highlights of this report has been presented before exceptional items, in order to better present the underlying performance of the Group.

Notes to the financial information for the year ended 31 December 2016 (continued)

7. Dividends

Dividend per share

	2016 pence	2015 pence
Interim dividend	**4.6**	4.6
Final proposed dividend	**7.8**	7.8
Total dividend	**12.4**	12.4

Dividends paid

	2016 £M	2015 £M
Interim dividend of 4.6 pence per share (2015: interim dividend of 4.6 pence per share)	**10.2**	10.6
Final 2015 dividend of 7.8 pence per share (2015: final 2014 dividend of 7.8 pence per share)	**17.2**	18.0
Total dividends paid	**27.4**	28.6

The directors are recommending a final dividend in respect of the financial year ended 31 December 2016 of 7.8 pence per share which will amount to a full year dividend payment of £27.5M. If approved by the shareholders at the annual general meeting, this dividend will be paid on 12 May 2017 to shareholders who are on the register of members at 18 April 2017. This dividend is not reflected as a liability in the balance sheet as at 31 December 2016 as it is subject to shareholder approval.

8. Exceptional items

	2016 £M	2015 £M
Exceptional charge	**-**	(15.9)
Tax charge	**-**	(6.5)
Post-tax exceptional charge	**-**	(22.4)

9. Goodwill

	2016 £M	2015 £M
Net book value at 1 January	**20.1**	-
Acquisition of subsidiary	**-**	20.4
Exchange adjustments	**3.2**	(0.3)
Net book value at 31 December	**23.3**	20.1

Notes to the financial information for the year ended 31 December 2016 (continued)

10. Intangible assets

	2016 £M	2015 £M
Net book value at 1 January	**25.6**	10.1
Additions	**15.8**	18.9
Acquisition of subsidiary	**-**	6.0
Impairment	**(0.7)**	(4.6)
Amortisation	**(9.0)**	(4.8)
Exchange adjustments	**0.9**	-
Net book value at 31 December	**32.6**	25.6

Intangible assets comprise computer software and customer relationships on the acquisition of MCB Finance.

11. Property, plant and equipment

	2016 £M	2015 £M
Net book value at 1 January	**24.3**	28.2
Exchange adjustments	**1.7**	(1.2)
Acquisition of subsidiary	**-**	0.1
Additions	**8.3**	8.2
Disposals	**(0.8)**	(0.4)
Depreciation	**(10.1)**	(10.6)
Net book value at 31 December	**23.4**	24.3

As at 31 December 2016 the Group had £6.1M of capital expenditure commitments contracted with third parties that were not provided for (2015: £7.8M).

12. Deferred tax assets

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.

Notes to the financial information for the year ended 31 December 2016 (continued)

13. Amounts receivable from customers

All lending is in the local currency of the country in which the loan is issued.

	2016 **£M**	2015 £M
Polish zloty	**345.7**	300.1
Czech crown	**84.2**	85.0
Euro	**96.3**	87.6
Hungarian forint	**139.6**	107.5
Mexican peso	**161.2**	147.4
Romanian leu	**98.6**	67.3
Bulgarian lev	**7.8**	5.7
Australian Dollar	**6.5**	1.8
Total receivables	**939.9**	802.4

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the average effective interest rate of 105% (2015: 115%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 7.8 months (2015: 6.3 months).

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 £437.0M (2015: £425.8M).

14. Borrowing facilities and borrowings

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

	2016		2015	
	Borrowings **£M**	**Facilities** **£M**	Borrowings £M	Facilities £M
Repayable:				
– in less than one year	**22.4**	**56.8**	22.3	45.6
– between one and two years	**73.2**	**85.3**	28.7	60.7
– between two and five years	**527.2**	**633.1**	214.0	288.7
– greater than five years	**-**	**-**	291.9	294.9
	600.4	**718.4**	534.6	644.3
Total borrowings	**622.8**	**775.2**	556.9	689.9

As shown above, total undrawn facilities as at 31 December 2016 were £152.4 million (2015: £133.0 million).

Notes to the financial information for the year ended 31 December 2016 (continued)

14. Borrowing facilities and borrowings (continued)

As outlined previously, the Group's home credit company in Poland, Provident Polska, has been subject to tax audits in respect of the Company's 2008 and 2009 financial years. The 2010 financial year is currently being audited by the tax authorities in Poland, and all subsequent years until 2016 remain open to future audit. Since the year end Provident Polska has appealed the decisions made by the Polish Tax Chamber, to the District Administrative Court, for the 2008 and 2009 financial years and has paid the amounts assessed of approximately £38M (comprising tax and associated interest) which was necessary in order to make the appeals. In order to appeal any potential future decisions for 2010 and subsequent years, further payments may be required. There are significant uncertainties in relation to the amount and timing of such cash outflows. However, in the event that audits are opened, and similar decisions are reached for each of these subsequent financial years, further amounts of up to c.£95M may be required to be funded. In relation to these matters, the directors have stated in note 22 that they do not consider that there will be any probable ultimate loss.

15. Derivative financial instruments

At 31 December 2016 the Group had an asset of £15.4M and a liability of £4.7M (2015: £11.5M asset and £2.8M liability) in respect of foreign currency contracts and interest rate swaps. Foreign currency contracts are in place to hedge foreign currency cash flows. Interest rate swaps are used to cover a proportion of current borrowings relating to the floating rate Polish bond and a proportion of floating rate bank borrowings. These cash flow hedges are effective and in accordance with IFRS, movements in their fair value are taken directly to reserves.

16. Retirement benefit obligations

The amounts recognised in the balance sheet in respect of the retirement benefit obligation are as follows:

	2016 **£M**	2015 £M
Equities	**22.1**	19.8
Bonds	**9.6**	8.9
Index-linked gilts	**8.3**	7.2
Other	**0.2**	0.2
Total fair value of scheme assets	**40.2**	36.1
Present value of funded defined benefit obligations	**(49.3)**	(36.3)
Net obligation recognised in the balance sheet	**(9.1)**	(0.2)

The charge recognised in the income statement in respect of defined benefit pension costs is £nil (2015: £nil).

Notes to the financial information for the year ended 31 December 2016 (continued)

17. Fair values of financial assets and liabilities

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).

All of the Group's financial instruments held at fair value fall into hierarchy level 2 (2015: all of the Group's financial instruments held at fair value fell into hierarchy level 2). The fair value of derivative financial instruments has been calculated by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at the relevant period end.

Except as detailed in the following table, the carrying value of financial assets and liabilities recorded at amortised cost, which are all short-term in nature, are a reasonable approximation of their fair value:

	2016		2015	
	Fair value	**Carrying value**	Fair value	Carrying value
	£M	**£M**	£M	£M
Financial assets				
Amounts receivable from customers	**1,335.5**	**939.9**	1,140.0	802.4
	1,335.5	**939.9**	1,140.0	802.4
Financial liabilities				
Bonds	**480.8**	**565.0**	459.9	500.8
Bank borrowings	**57.8**	**57.8**	56.1	56.1
	538.6	**622.8**	516.0	556.9

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (as used to calculate the carrying value of amounts due from customers), net of agent collection costs, at the Group's weighted average cost of capital.

The fair value of the bonds has been calculated by reference to their market value.

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

Notes to the financial information for the year ended 31 December 2016 (continued)

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

	2016 £M	2015 £M
Profit after taxation	**66.9**	62.5
Adjusted for:		
Tax charge	**25.7**	37.7
Finance costs	**47.1**	41.6
Share-based payment charge	**3.5**	4.1
Depreciation of property, plant and equipment (note 11)	**10.1**	10.6
Loss on disposal of property, plant and equipment	**0.8**	-
Amortisation of intangible assets (note 10)	**9.0**	4.8
Impairment of intangible assets (note 10)	**0.7**	4.6
Changes in operating assets and liabilities:		
Amounts receivable from customers	**(42.6)**	(58.5)
Other receivables	**(6.6)**	(1.1)
Trade and other payables	**19.2**	1.5
Retirement benefit obligation	**(1.1)**	(1.1)
Derivative financial instruments	**(0.2)**	(6.4)
Cash generated from operating activities	**132.5**	100.3

19. Acquisition accounting

On 6 February 2015 the Group acquired 100% of the issued share capital of MCB Finance Group plc.

No hindsight adjustments have made in the period in respect of this acquisition.

20. Post balance sheet events

In January 2017, the Group's Polish home credit subsidiary received adverse decisions from the Polish tax authority in respect of audits for 2008 and 2009. In order to lodge appeals against the decisions it was necessary to pay the amounts assessed. Accordingly, tax payments totalling £38M were made in January 2017.

21. Average and closing foreign exchange rates

The table below shows the average exchange rates for the relevant reporting periods and closing exchange rates at the relevant period ends.

	Average 2016	**Closing 2016**	Average 2015	Closing 2015
Polish zloty	**5.3**	**5.2**	5.8	5.8
Czech crown	**33.3**	**31.6**	37.6	36.6
Euro	**1.2**	**1.2**	1.4	1.4
Hungarian forint	**377.7**	**362.1**	428.3	427.1
Mexican peso	**25.6**	**25.6**	24.5	25.3
Romanian leu	**5.4**	**5.3**	6.1	6.1
Bulgarian lev	**2.4**	**2.3**	2.7	2.7
Australian dollar	**1.8**	**1.7**	2.0	2.0

21. Average and closing foreign exchange rates (continued)

The £65.1M exchange gain on foreign currency translations shown within the statement of comprehensive income arises on retranslation of net assets denominated in currencies other than sterling, due to the change in foreign exchange rates against sterling between December 2015 and December 2016 shown in the table above.

22. Contingent Liability Note

The Group's home credit company in Poland, Provident Polska, has been subject to tax audits in respect of the company's 2008 and 2009 financial years. During these audits the Polish tax authorities have challenged an intra-group arrangement with a UK entity, and the timing of the taxation of home collection fee revenues.

These audits culminated with decisions being received from the Polish Tax Chamber (the upper tier of the Polish tax authority) on 5 January 2017 in relation to the 2008 financial year, and on 23 January 2017 in respect of the 2009 financial year. Provident Polska has appealed these decisions to the District Administrative Court, but has had to pay, since the Group's year end, the amounts assessed totalling approximately £38M (comprising tax and associated interest) which was necessary in order to make the appeals. The Company strongly disagrees with the interpretation of the tax authority having received legal opinions from leading advisors as to the strength of our case.

The 2010 financial year is currently being audited by the tax authorities in Poland and a decision is awaited. In the event that the decision follows the same reasoning as for 2008 and 2009 a further c. £19M would become payable. In addition, all subsequent years remain open to future audit, meaning that there are further significant uncertainties in relation to the amount and timing of potential additional future payments in relation to these periods. In the event that audits are opened in respect of some or all of these open periods, and similar decisions are reached, further amounts may be required to be paid, the timing of which would be dependent upon the timing of decisions made by the Polish tax authorities for these later periods.

In relation to these matters, no expense or provision has been made in this financial information in relation to either the cash paid to the Polish tax authorities for the 2008 and 2009 financial years, or in relation to future decisions that may be received for later financial periods, as the directors do not consider that there will be any probable loss. This is on the basis of both the legal advice received, and the fact that during a previous tax audit by the same tax authority, the company's treatment of these matters was accepted as correct.

Therefore the payments of the sums outlined above are not a reflection of the directors' view on the merits of the case, and accordingly the payments made in January 2017 will be recognised as a non-current financial asset in the 2017 financial information given the uncertainties in relation to the timing of any repayment of such amounts.

Notes to the financial information for the year ended 31 December 2016 (continued)

23. Going concern

The Board has reviewed the budget for the year to 31 December 2017 and the forecasts for the two years to 31 December 2019 which include projected profits, cash flows, borrowings, headroom against debt facilities, and funding requirement. The Group's total debt facilities including a range of bonds and bank facilities, combined with a successful track record of accessing debt funding markets over a long period (including periods of adverse macro-economic conditions and a changing competitive and regulatory environment) is sufficient to fund business requirements for the foreseeable future. Taking these factors into account, together with regulatory and taxation risks set out in note 2 to this financial information, the Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason the Board has adopted the going concern basis in preparing this financial information.

Responsibility statement

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

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

To the best of each director's knowledge:

a) the financial information, 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.

Information for shareholders

1. The shares will be marked ex-dividend on 13 April 2017.

2. The final dividend, which is subject to shareholder approval, will be paid on 12 May 2017 to shareholders on the register at the close of business on 18 April 2017. Dividend warrants/vouchers will be posted on 10 May 2017.

3. A dividend reinvestment scheme is operated by Capita Registrars. For further information contact them at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (telephone 0371 664 0381. Calls cost 12 pence per minute plus your phone company's access charge, or +44 (0)20 8639 3367 (from outside the UK charged at the applicable international rate). Lines are open 8.30am to 5.30pm Monday to Friday excluding bank holidays).

4. The Annual Report and Financial Statements 2016, the notice of the annual general meeting and a proxy card will be posted on 21 March 2017 to shareholders who have elected to continue receiving documents from the Company in hard copy form. All other shareholders will be sent a proxy card and a letter explaining how to access the documents on the Company's website from 22 March 2017 or an email with the equivalent information.

5. The annual general meeting will be held at 10.30am on 3 May 2017 at the Company's registered office, Number Three, Leeds City Office Park, Meadow Lane, Leeds, LS11 5BD.

This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The report should not be relied on by any other party or for any other purpose. The report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Percentage change figures for all performance measures, other than profit before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate (CER) for 2016 in order to present the underlying performance variance.

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International Personal Finance will host a live webcast of its full year results presentation at 09:00hrs (GMT) today – Wednesday 1 March, which can be accessed at www.ipfin.co.uk/investors.

The team will also host a conference call for analysts and investors at 16:00hrs (GMT) today – Wednesday 1 March 2017. An audio recording will be available at www.ipfin.co.uk/investors from 2 March 2017.

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A copy of this statement can be found on the Company's website – www.ipfin.co.uk

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