A resilient business model

Our business success is built on high levels of customer satisfaction and enduring customer relationships. Key to this are agents who are central to our credit management processes and who visit our customers each week to make collections – in 2008 we made around 100 million customer visits.

In 2008, of those customers eligible to take out another loan, around 70% did so.

A resilient business model

Our business model

Over the last 11 years our home credit business model has proved itself to be resilient, flexible and profitable.

Our regular contact with customers through agents allows us to understand their needs and circumstances and to rapidly adjust our lending decisions. Our policy of not charging additional interest or penalty charges on the majority of loans to customers who miss payments allows us to help customers through difficult times. Part of the resilience of our business is also attributable to the short-term nature of its lending. On average we have less than six months of receivables outstanding at any time which means we can change the risk profile of the loan book very quickly. All of this adds up to a business model that is well placed to succeed in the long term and weather economic downturns along the way.

Our philosophy is one of maximising the lifetime value of customers rather than driving volumes and growth in an uncontrolled manner. We believe we are far more likely to grow profitably over the long term if we build sustainable relationships with quality customers. To achieve this we employ a 'low and grow' strategy, which typically involves offering customers a relatively small value first loan (£100 to £200 on average) over a term of less than a year; and only increasing the size and length of the loan when they have demonstrated that they are a good payer.

Credit decisions, supported by our powerful suite of credit management tools, are based primarily on the customer's ability to repay, taking into account all of their regular income and expenses, and not on the value of their assets – all of our lending is unsecured.

This business model is applied consistently in all of our markets although we have demonstrated our ability to be flexible and modify the model where necessary. Our new flexible products are being rolled out across all markets in 2009.

Agents

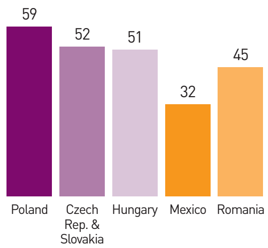
Agents are the linchpin of our home credit model. The face-to-face contact our agents have with customers in their homes each week means we have a unique insight into our customers' circumstances. If customers' circumstances change, for the better or worse, we are able to adapt our lending decisions rapidly, based on the latest information.

There are some 28,900 agents working across the seven countries in which we operate. They are the public face of IPF and are key to ensuring we offer customers a trusted, reliable and professional service. They visit each of our customers every week. In the course of a year our team of agents will make around 100 million customer visits.

The majority of agents are self-employed, although in Hungary local regulation requires that we employ agents.

Generally, agents are able to work as many hours as they choose and often combine their part-time agency work with another job or family commitments. This makes the job very convenient especially as they tend to operate in their own communities. Agents' remuneration is predominantly based on the amounts they collect, not on the volume of customers acquired or loans granted. This promotes responsible lending.

Average loan term by market (weeks)



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A typical commission structure for an agent would see them receive a small amount for taking on a new customer plus 5% of the value of loan instalments they collect. An established agent will typically receive around 80% to 90% of their income from collections and service around 70 to 100 customers.

Agents play an important role in deciding whether to make a loan and determining the appropriate levels of credit to issue to customers. They are required to document the income and expenditure of the customer before issuing a loan to determine whether the customer has sufficient disposable income to repay the loan. They are supported in this process by our credit management systems, which use statistical models to determine the credit risk of applicants.

When we enter a new market we initially select agents through advertising in the local press or through leaflet distribution. However, in our established businesses, many agents were previously customers who know us and our products well.

New agents complete a structured induction programme, which lasts around three months, and are supervised by one of our field managers. All agents benefit from regular support and guidance, and meet their manager at least once every week. A manager will typically supervise between 10 and 15 agents depending on the number of customers they have.

As part of our Treating Customers Fairly ('TCF') initiative we are developing an Agent Charter which clearly sets out what support they will receive from us and our expectations of them. It also stipulates that they must meet a range of commitments, including health and safety, customer service and responsible lending.

Because agents are collecting and supplying cash to customers, procedures for personal safety are in place.

Credit management systems
Agents are supported in their day-to-day activities by a powerful suite of sophisticated credit management systems. We also have well established processes to enable us to identify customer and agent fraud. These systems mean that we can manage our credit risks carefully and respond quickly to changes in the marketplace.

Corporate responsibility ('CR')
Our values underpin every aspect of our approach to doing business and define the sort of group we want to be.

We strive to be an ethical business, known for treating our customers fairly, for bringing tangible benefits to the communities in which we work and for supporting and developing our employees. We do everything we can to minimise our environmental impacts.

Our Code of Ethics commits us to conducting our business with honesty and integrity and in accordance with the law. We are also committed to respecting human rights and avoiding fraud and corruption. We have a whistle-blowing policy and operate an externally managed hotline wherever we are legally able to do so. We pay suppliers promptly and encourage other people we work with to meet the ethical, social and environmental standards we set ourselves.

Total number of agents

28,900

Percentage of agents who are female

79%

Agents are primarily incentivised for the amounts they collect not for the money that they lend. A typical commission structure for an agent would see them receive a small amount for taking on a new customer plus 5% of the value of loan instalments they collect.

Integrating CR

Our efforts in CR are led from the top. Our Chief Executive Officer, John Harnett, chairs our CR steering committee which formally met twice in 2008. Our international CR working group, the international environment working groups and our Treating Customers Fairly ('TCF') group all report to the steering committee.

Treating Customers Fairly

One core element is aligning our business to the UK Financial Services Authority's TCF principles. We have interpreted what this means for our business and developed our own Customer Principles which were signed off by the board in 2008. These emphasise the customer focus of our business and help us to consider the impacts of our business decisions on our customers. These commit us, amongst other things, to provide customers with simple products designed to meet their needs, keep customers informed, provide clear and well-balanced information, understand their ability to repay loans and help them through difficulties.

Our people

We have HR policies covering non-discrimination, equal opportunities and diversity. We provide employees with safe and comfortable working conditions, learning and development and offer comprehensive terms and conditions both in terms of basic salary and benefits. In 2008, our employees undertook over 175,000 formal training hours (28.9 hours per employee).

Community investment

We focus our community programmes on issues that relate directly to our business. That is why we have chosen to make financial literacy central to our community investment activities. We want to help ensure that customers in our markets have the right knowledge to make informed financial decisions and believe this will be increasingly important in the emerging economies where we want to operate. We invested £0.6 million in our community activities in 2008, representing 0.9% of pre-tax profit. We also have an active volunteering programme which saw nearly 2,000 employees volunteer over 5,800 hours.

Environmental footprint

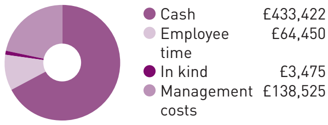
Our environmental management system is based on the international standard ISO14001 and we carry out audits against this standard in every business, every year. We build on the enthusiasm of our employees through a range of environmental volunteering activities and run communications campaigns to support this. As a result of our efforts, our carbon footprint remains steady at 3.04 tonnes/CO_2 per employee, we reduced paper use by 9.5% and increased recycled paper as a percentage of paper purchased from 12% to 15%.

Stakeholder engagement

We believe we can learn a great deal through effective stakeholder engagement. During the year we continued to organise employee and agent forums and to carry out annual engagement surveys. We regularly commission external research into customer opinions in each of our markets. We also ran a stakeholder round table in 2008 to obtain external insight into our TCF strategy and CR reporting.

We work in partnership with a wide range of organisations in all our markets and in 2008 we decided to participate in the UN Global Compact. This is the largest corporate voluntary organisation for CR.

Community investment – by contribution type



Our Customer Principles emphasise the customer focus of our business and help us to consider the impacts of our business decisions on our customers.

Carbon footprint per employee

3.04 tonnes/CO_2

Percentage reduction in paper use

9.5%

A resilient business model

In 2008 IPF was included in the FTSE4Good Index. Although the Group was not large enough by market capitalisation to be invited to participate in the Dow Jones Sustainability Index assessment, we commissioned SAM Research to undertake an external benchmarking assessment against the same criteria. This gave encouraging results regarding our CR performance relative to peers – our overall score was 61% against a peer group average of 38% and a top score of 68%.

You can read a full account of our progress in our 2008 CR Report at http://www.ipfincrreport.co.uk/2008

Improving our core business

Excellence in Execution

We believe that our core home credit model is robust. It has operated successfully in our international markets for 11 years, and in the UK for over 100 years. As we continue to expand our operations in both our new and existing markets, we are seeking new ways to make our business more resilient and more profitable. We recognise the importance to shareholders of minimising the operational risk as we roll-out new branches in new markets and aim to ensure that we execute the model as consistently as possible. If we do this well, shareholders will have greater confidence that, once a pilot has been approved and moved into the development phase which is characterised by an increase in start-up losses, it will move up the J-curve and generate shareholder value.

During 2008 we identified a number of potential performance improvement initiatives that we grouped under the banner of 'Excellence in Execution'. This includes a number of key initiatives geared towards improving the systems we use, developing our employees and agents and making business processes more effective. Our main priorities for 2009 are:

The Home Credit Blueprint

We are now introducing precisely defined and documented operating processes and procedures to ensure that, as we open in new territories or employ new people, we deliver a consistently good service to customers and agents. Review of compliance with this blueprint will be integrated within our internal audit plan from 2009. This also supports our approach to TCF.

Tailored operational management

In the last few years we have significantly improved our credit management and marketing systems. This enables us to segment the performance and potential of all markets, which enables us to devolve more control of the business to local branches. We will tailor our sales, marketing and credit strategies according to the potential and performance of individual branches rather than at country level. We have successfully implemented this approach in Mexico and are now rolling it out in all our markets. We expect this will improve the profit performance of all branches and also narrow the range of performance across branches.

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Rate of agent engagement

66%

Improving the performance of agents

Making small improvements in agent effectiveness can make a significant improvement in the overall performance of the Group. We also know from detailed analysis that the retention of agents and building their levels of experience is a major driver of profit. Clearly the agent is central to us delivering a quality service to our customers. We therefore intend to improve our selection and performance management of agents in all markets during 2009.

People development

Improving engagement and reducing levels of employee turnover can result in significant improvements in operational performance. We also recognise that we need a strong pipeline of potential senior managers who will be able to develop large and profitable new markets. We are developing senior management through a fast-track development programme with participants from all our markets. In 2007 we also began identifying potential leaders within the business and are giving them broad experience of all aspects of the home credit business. Many of our senior managers in Central Europe are taking senior positions in other markets. For example, our country manager in Poland is Hungarian, our second in command in Romania is a Polish national, while one of our two regional managers in Mexico is from the Czech Republic.

New product development

In Poland and Slovakia we have adapted our product structure so that customers can elect to pay for the agent service or to make repayments themselves. Following pilots in all our markets we have decided to roll-out flexible products in 2009. This new product will replace the existing offering.

We have also started our Russian pilot by delivering loans on pre-paid Visa cards. This addresses the cash handling regulations in Russia but could offer attractive opportunities to remove cash from circulation in other markets to reduce fraud and crime risk, along with opportunities to top up customer loans rapidly.

We recognise that we need a strong pipeline of potential senior managers who will be able to develop large and profitable new markets. We are developing new senior recruits through a fast-track development programme with participants from all our markets.

Number of employees on our Leadership Development Plan

69

A resilient business model

Principal risks

Strategic risk	Mitigation
Economic downturn The condition of the economies in which we operate and in particular changes in general levels of unemployment is likely to have a significant impact on business performance. Customers may be less willing to borrow and less able to repay loans. Reduced demand, reduced revenue and increased impairment may result.	We have a resilient business model. Our loan book is short-term, on average just under six months repayments are outstanding, which means we can quickly change the risk-return profile of our lending, and our close customer relationships allow us to rapidly detect, and respond to, changes in customers' circumstances. Credit controls have been tightened, costs reduced and expansion plans in new markets put on hold in the short-term.
Competition Increased competition may reduce market share leading to increased costs of customer acquisition and retention or reduced credit issued, lower revenue and lower profitability.	There are few providers of home collected credit in our markets. Our distinctive operating model engenders high levels of customer satisfaction. Market research is continually undertaken to monitor satisfaction levels, identify usage of other financial products and monitor competitor activity. In addition, this risk has been reduced by diversification of customer acquisition channels, and less competition and reducing costs of media as a result of the economic downturn.
Business development Failure to effectively develop the business and achieve strategic aims because management resources, IT and operational systems or long-term funding prove inadequate or insufficient.	A formal talent development programme aimed at delivering sufficient high-quality managers to meet future plans is in place. The Group has a clear strategy for the development of its IT systems and operational processes. The strategically important development of the Mexican business, proving the ability to bring a large market in a new continent into profit, is progressing well.
Funding Insufficient liquid funds to meet the short-term or strategic requirements of the business. This is particularly relevant following the significant reduction in the general availability of bank and capital markets funding. At extreme this could lead to a breach of banking covenants causing all outstanding facilities to fall due for repayment or the going concern status of the business being called into question.	The business is well capitalised with equity representing 45.1% of net customer receivables. At 31 December 2008 there was headroom of £229.5 million on £663.8 million of syndicated and bilateral banking facilities, of which £422.8 million were extended in October 2008 to October 2011. The remainder expires with various maturing dates before then, the bulk expiring in March 2010. This is forecast to be sufficient bank funding to meet the requirements of the existing markets through to October 2011 but insufficient to allow entry into new territories or the roll-out of operations in the Russian market. We will work to secure additional funding.
Counterparty risk The risk that a key supplier or operational partner ceases to operate. Banks: Loss of funding lines or cash balances for withdrawal by agents to use in providing loans to customers are unavailable. Other: Business failure of a counterparty such as an IT services outsourcer that causes significant disruption or impact on our ability to operate.	Cash is held only with A3 rated financial institutions. Institutions with lower credit ratings can only be used with full board approval. There are regular risk assessments of other key counterparties. All of the banks who provide us with funding or other services have continued to function.
Currency risk Reported results and related assets and liabilities are at risk of adverse exchange rate fluctuations. Earnings are adversely affected by currency movements.	The foreign exchange rates used to translate the majority of reported earnings within a financial reporting period are hedged. No loans are issued in a currency other than the functional currency of the relevant market. Funds are borrowed in, or swapped into, the same local currencies as customer net receivables so far as possible. Currently, the capital markets in Romania are not operating effectively with the result that the receivables in this market are partly funded in equity from the Parent Company which is denominated in Sterling.

Strategic risk	Mitigation
Tax risk Adverse changes in, or conflicting interpretations of, the different countries' tax legislation and practice may lead to an increase in the Group's taxation liabilities and effective tax rate.	External professional advice for all material transactions is taken and supported by strong internal tax experts both in-country and in the UK. Where possible, tax treatments are agreed in advance with relevant authorities.
Financial services regulation and legislation Changes to the regulation of credit or the sale of credit by intermediaries or other laws may impact the operation of the business and/or result in higher costs. Breaches of regulation may result in fines or the withdrawal of operating licences.	We foster open relationships with regulatory bodies and closely monitor developments in all markets in which the business operates, and in respect of the EU as a whole. We work proactively with opinion formers to ensure the businesses are well understood. This is facilitated by membership of the British Chamber of Commerce and/or relevant local trade bodies along with the Consumer Credit Association in the UK. We operate a legal affairs committee to oversee legal risks across the Group and take external legal advice to ensure we remain compliant.
Risk to reputation Our good reputation is adversely affected by ill-informed comment or malpractice. Damage to our brand and customer satisfaction ratings reduces customer demand.	We have an established corporate social responsibility programme. This includes continued investment in community initiatives to foster good relations with customers and the areas in which they live along with the implementation of the FSA's Treating Customers Fairly principles. We have clear operating guidelines to ensure consistency and compliance with Group values. An active communications programme is in place to foster a better understanding of the Group's products.
Credit risk The failure to respond appropriately to changes in the credit risk profile of our target market and existing customer base. Performance not optimised through failure to lend to good quality customers. Increased impairment impacts profitability and staff and agent engagement leading to increased turnover.	We have effective credit management systems in place for evaluating and controlling the risk from lending to new and existing customers. This is supplemented by the weekly contact between our agents and customers allowing a regular assessment of credit risk. Our agents are incentivised to collect not lend. Credit controls were tightened in October 2008 in anticipation of the impact of the downturn in world economies.
Service disruption Day-to-day operations disrupted in the event of damage to, or interruption or failure of, information and communication systems. Failure to provide quality service to customers and loss of data. Disruption of activities increases costs or reduces potential net revenues.	Robust business continuity process, procedures and reporting framework in place to enable us to continue trading in the event of such an occurrence. These are regularly tested and reviewed. Continuous investment in, and development of, IT platforms.
Health and safety The failure to provide an appropriate working environment to our staff and agents. Staff and agents have safety concerns that impact engagement and productivity.	Health and safety policies in place. Formal safety guidance provided to staff and agents as part of induction programme together with ongoing safety awareness refreshers.