

## Financial statements

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## Independent auditors' report to the members of International Personal Finance plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of International Personal Finance plc for the year ended 31 December 2008 which comprise the consolidated income statement, the Group and Company balance sheets, the Group and Company cash flow statements, the Group and Company statements of recognised income and expense, the accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited. The pro forma information included in notes 31 and 32 is unaudited.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards, as adopted by the European Union ('IFRSs'), are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the directors' report and business review (which includes the Chairman's statement, Chief Executive Officer's review and financial review) and the governance section (which includes the unaudited part of the directors' remuneration report). We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

### **Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2008 and cash flows for the year then ended;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
Leeds

23 March 2009

# Consolidated income statement

for the year ended 31 December

Group	Notes	2008 £m	2007 £m
Revenue*	1	<b>557.1</b>	409.8
Impairment	1	<b>(127.2)</b>	(83.2)
<b>Revenue less impairment</b>		<b>429.9</b>	326.6
Finance costs	2	<b>(29.5)</b>	(22.3)
Other operating costs		<b>(111.8)</b>	(81.6)
Administrative expenses		<b>(218.3)</b>	(175.7)
<b>Total costs</b>		<b>(359.6)</b>	(279.6)
<b>Profit before taxation</b>	1, 3	<b>70.3</b>	47.0
Profit before taxation and exceptional demerger costs	1	<b>70.3</b>	49.8
Exceptional demerger costs	31	–	(2.8)
Profit before taxation	1	<b>70.3</b>	47.0
Tax expense – UK		<b>(1.3)</b>	(1.9)
– overseas		<b>(18.4)</b>	(12.6)
Total tax expense	5	<b>(19.7)</b>	(14.5)
<b>Profit after taxation attributable to equity shareholders</b>	26	<b>50.6</b>	32.5

\*All amounts included in revenue are defined as finance income under IFRS 7.

Group	Notes	2008 pence	2007 pence
<b>Earnings per share</b>			
Basic	6	<b>19.73</b>	12.64
Diluted	6	<b>19.70</b>	12.62

Group and Company	Notes	2008 pence	2007 pence
<b>Dividend per share</b>			
Interim dividend	7	<b>2.30</b>	1.90
Final proposed dividend	7	<b>3.40</b>	2.85
		<b>5.70</b>	4.75

Group and Company	Notes	2008 £m	2007 £m
<b>Dividends paid</b>			
Interim dividend of 2.30 pence per share (2007: 1.90 pence per share)	7	<b>5.9</b>	4.9
Final dividend of 2.85 pence per share	7	<b>7.3</b>	–
		<b>13.2</b>	4.9

The accounting policies and notes 1 to 30 are an integral part of these consolidated financial statements. The results shown above relate entirely to continuing operations.

## Statements of recognised income and expense

for the year ended 31 December

	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
<b>Profit/(loss) after taxation attributable to equity shareholders</b>		<b>50.6</b>	32.5	<b>(9.7)</b>	(2.8)
Exchange gains on foreign currency translations	26	<b>30.2</b>	21.1	-	-
Net fair value (losses)/gains – cash flow hedges	26	<b>(8.9)</b>	1.4	<b>0.2</b>	-
Actuarial losses on retirement benefit asset/obligation	23/26	<b>(3.3)</b>	(2.0)	<b>(0.7)</b>	(0.4)
Tax credit on items taken directly to equity	26	<b>3.4</b>	0.1	<b>0.1</b>	0.1
Net income/(expense) recognised directly in equity	26	<b>21.4</b>	20.6	<b>(0.4)</b>	(0.3)
<b>Total recognised income/(expense) for the year</b>	26	<b>72.0</b>	53.1	<b>(10.1)</b>	(3.1)

The accounting policies and notes 1 to 30 are an integral part of these consolidated financial statements.

The Group has presented an unaudited pro forma income statement and unaudited pro forma earnings per share for the year ended 31 December 2007 in notes 31 to 32 of these financial statements. These are presented in order to show what the financial position would have been if the Group had operated as a stand alone entity throughout 2007.

# Balance sheets

as at 31 December

	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	10	17.5	18.7	-	-
Investment in subsidiaries	11	-	-	665.1	664.0
Property, plant and equipment	12	52.4	40.8	-	-
Retirement benefit asset	23	-	1.7	-	0.4
Deferred tax assets	13	37.5	27.8	0.4	-
		<b>107.4</b>	<b>89.0</b>	<b>665.5</b>	<b>664.4</b>
<b>Current assets</b>					
Amounts receivable from customers:					
- due within one year		552.2	422.7	-	-
- due in more than one year		22.2	20.5	-	-
	14	<b>574.4</b>	<b>443.2</b>	-	-
Derivative financial instruments	19	1.7	0.7	6.0	-
Cash and cash equivalents	15	62.2	88.8	0.7	6.4
Trade and other receivables	16	19.2	9.0	125.5	86.0
		<b>657.5</b>	<b>541.7</b>	<b>132.2</b>	<b>92.4</b>
<b>Total assets</b>		<b>764.9</b>	<b>630.7</b>	<b>797.7</b>	<b>756.8</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Bank borrowings	18	(1.2)	(8.8)	-	-
Derivative financial instruments	19	(14.4)	(0.7)	(9.7)	(0.2)
Deferred tax liabilities	13	-	-	-	(0.1)
Trade and other payables	17	(53.4)	(50.6)	(104.5)	(52.9)
Current tax liabilities		(2.5)	(5.0)	-	-
		<b>(71.5)</b>	<b>(65.1)</b>	<b>(114.2)</b>	<b>(53.2)</b>
<b>Non-current liabilities</b>					
Retirement benefit obligation	23	(1.5)	-	(0.3)	-
Bank borrowings	18	(433.1)	(362.0)	(53.6)	(47.1)
		<b>(434.6)</b>	<b>(362.0)</b>	<b>(53.9)</b>	<b>(47.1)</b>
<b>Total liabilities</b>		<b>(506.1)</b>	<b>(427.1)</b>	<b>(168.1)</b>	<b>(100.3)</b>
<b>Net assets</b>		<b>258.8</b>	<b>203.6</b>	<b>629.6</b>	<b>656.5</b>
<b>Shareholders' equity</b>					
Called-up share capital	25, 26	25.7	25.7	25.7	25.7
Other reserve	26	(22.5)	(22.5)	226.3	226.3
Foreign exchange reserve	26	57.7	27.5	-	-
Hedging reserve	26	(6.1)	0.3	0.1	-
Shares held by employee trust	26	(5.7)	-	(5.7)	-
Retained earnings	26	209.7	172.6	383.2	404.5
<b>Total equity</b>	26	<b>258.8</b>	<b>203.6</b>	<b>629.6</b>	<b>656.5</b>

The accounting policies and notes 1 to 30 are an integral part of these consolidated financial statements.

The financial statements comprising the consolidated income statement, statements of recognised income and expense, Group and Parent Company balance sheets and cash flow statements, accounting policies and notes 1 to 30 were approved by the board of directors on 23 March 2009 and were signed on its behalf by:

John A Harnett  
Chief Executive Officer

David E S Broadbent  
Finance Director

# Cash flow statements

for the year ended 31 December

	Notes	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	27	65.7	45.1	15.1	(35.1)
Established businesses		105.5	71.2	15.1	(35.1)
Start-up businesses		(39.8)	(22.2)	-	-
Demerger costs		-	(3.9)	-	-
		65.7	45.1	15.1	(35.1)
Finance costs paid		(26.0)	(22.4)	(8.1)	(1.7)
Finance income received		-	-	3.6	1.0
Income tax paid		(23.9)	(29.7)	(3.9)	-
Net cash generated from/(used in) operating activities		15.8	(7.0)	6.7	(35.8)
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment	12	(21.5)	(22.7)	-	-
Proceeds from sale of property, plant and equipment		3.6	5.9	-	-
Purchases of intangible assets	10	(3.2)	(5.1)	-	-
Acquisition of subsidiary (net of cash acquired)		-	(2.4)	-	-
Net cash used in investing activities		(21.1)	(24.3)	-	-
<b>Net cash from operating and investing activities</b>					
Established businesses		45.9	7.3	6.7	(35.8)
Start-up businesses		(51.2)	(34.7)	-	-
Demerger costs		-	(3.9)	-	-
		(5.3)	(31.3)	6.7	(35.8)
<b>Cash flows from financing activities</b>					
(Repayment of)/proceeds from external bank borrowings		(9.1)	(70.4)	6.5	47.1
Net movement in funding from Provident Financial plc		-	78.3	-	-
Capital contribution from Provident Financial plc		-	70.0	-	-
Dividends paid to Company shareholders	7	(13.2)	(4.9)	(13.2)	(4.9)
Purchase of shares by employee trust		(5.7)	-	(5.7)	-
Net cash (used in)/generated from financing activities		(28.0)	73.0	(12.4)	42.2
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(33.3)</b>	<b>41.7</b>	<b>(5.7)</b>	<b>6.4</b>
Cash and cash equivalents at beginning of year		88.8	44.5	6.4	-
Exchange gains on cash and cash equivalents		6.7	2.6	-	-
<b>Cash and cash equivalents at end of year</b>	15	<b>62.2</b>	<b>88.8</b>	<b>0.7</b>	<b>6.4</b>
<b>Cash and cash equivalents at end of year comprise:</b>					
Cash at bank and in hand		57.0	48.9	0.7	0.4
Short-term deposits		5.2	39.9	-	6.0
	15	62.2	88.8	0.7	6.4

Certain companies within the Group are required to keep certain cash and short-term deposits strictly segregated from the rest of the Group and these amounts are therefore not available to repay Group borrowings. At 31 December 2008 such cash and short-term deposits held by these companies amounted to £8.1m (2007: £36.8m).

The accounting policies and notes 1 to 30 are an integral part of these consolidated financial statements.

## Accounting policies

### Basis of preparation

The consolidated Group and Parent Company financial statements of IPF plc and its subsidiaries (IPF or the Group) have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRS'), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS.

The following standards and interpretations were effective in the year:

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The following interpretations were effective in the current financial year but were not relevant to the Group:

IFRIC 12 'Service concession arrangements'

IFRIC 13 'Customer loyalty programmes'

The following standards and interpretations, which were in issue but not yet effective, have not been early adopted by the Group:

IFRS 8 'Operating Segments'

IAS 1 (Revised) 'Presentation of Financial Statements'

Amendment to IFRS 2 'Share-based payment – Vesting conditions and cancellations'

IFRS 3 (Revised) 'Business Combinations'

Amendment to IAS 36 'Impairment of assets' – impairment tests

Amendment to IAS 19 'Employee benefits'

Amendment to IAS 39 'Financial instruments: Recognition and measurement'

IFRIC 16 'Hedges of a net investment in a foreign operation'

IAS 23 (Revised) 'Borrowing Costs'

Amendment to IAS 32 and IAS 1 'Puttable financial instruments and obligations arising on liquidation'

Amendment to IAS 28 and IAS 32 'investments in associates'

Amendment to IAS 38 'Intangible assets'

IAS 27 (Revised) 'Consolidated and separate financial statements'

Amendment to IFRS 5 and IFRS 1 'Non-current assets held-for-sale and discontinued operations'

The standards and interpretations listed above are not expected to have a material impact on the financial statements.

### Accounting convention

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

### Consolidation

These consolidated financial statements include the financial results of all companies which are controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. All companies are 100% owned by IPF plc Group companies. A list of the principal subsidiaries included in the consolidated financial statements is included within note 11.

### Finance costs

Finance costs comprise the interest on external borrowings and are recognised on an effective interest rate ('EIR') basis.

### Segment reporting

The Group's primary reporting format is geographical segments. A geographical segment is a component of the Group that operates within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The provision of home credit is the only business segment operated by the Group and therefore a secondary segmental analysis is not provided.

### Revenue

Revenue, which excludes value added tax and intra-group transactions, comprises revenue earned on amounts receivable from customers. Revenue on customer receivables is calculated using an EIR. The EIR is calculated using estimated cash flows being contractual payments adjusted for the impact of customers paying early but excluding the anticipated impact of customers paying late or not paying at all.

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

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

### Leases

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

### Operating costs

Operating costs include agent commission, marketing costs, foreign exchange gains and losses and gains or losses on derivative contracts taken to the income statement. All other costs are included in administrative expenses.

### Share-based payments

The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the award. The corresponding credit is made to retained earnings. The cost is based on the fair value of awards granted, determined using a Monte Carlo simulation option pricing model or binomial option pricing model depending on the type of award.

In the Parent Company financial statements, in accordance with IFRIC 11 'IFRS 2 Group and Treasury Share Transactions', the fair value of providing share-based payments to employees of subsidiary companies is treated as an increase in the investment in subsidiaries.

### Exceptional items

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

### Financial instruments

#### Amounts receivable from customers

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

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

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

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with original maturities of three months or less. The short-term deposits are principally held for the purpose of meeting intra-Group arrangements. Cash also includes those balances held by agents for operational purposes. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

### Derivative financial instruments

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

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

For derivatives that are designated as cash flow hedges and where the hedge accounting criteria are met, the effective portion of changes in the fair value is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of operating costs. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

The Group discontinues hedge accounting when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

## Accounting policies continued

### Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the EIR. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Intangible assets

Intangible assets comprise computer software and a banking licence in Russia. Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire or develop the specific software and bring it into use.

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

The banking licence is not subject to amortisation as it is deemed to have an indefinite useful life as it will be used to allow the Group to issue credit to customers in Russia. It is tested for impairment at each balance sheet date.

### Investments in subsidiaries

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

### Property, plant and equipment

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

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

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

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

### Share capital

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

### Shares held by employee trust

The net amount paid by the employee trust to acquire shares is held in a separate reserve and shown as a reduction in equity.

### Foreign currency translation

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency'). The Group's financial information is presented in sterling.

Transactions that are not denominated in a subsidiary's functional currency are recorded at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the rates of exchange ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

The income statements of the Group subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from sterling are translated into sterling at the average exchange rate and the balance sheets are translated at the exchange rates ruling at each balance sheet date.

On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### Taxation

The tax expense represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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

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

### Employee benefits

#### Defined benefit pension plan

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

The asset/obligation recognised in the balance sheet in respect of the defined benefit pension plan is the fair value of the plan's assets less the present value of the defined benefit obligation at the balance sheet date.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of recognised income and expense.

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

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

#### Defined contribution plans

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

### Key assumptions and estimates

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

#### Amounts receivable from customers

The Group reviews its portfolio of customer loans and receivables for impairment every week. The Group makes judgments to determine whether there is objective evidence which indicates there has been an adverse effect on expected future cash flows. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable predictor of future payment performance. The level of impairment is calculated using actuarial models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage of each product. The impairment models are regularly reviewed to take account of the current economic environment and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, a material adjustment to the carrying value of amounts receivable from customers may be required. To the extent that the net present value of estimated cash flows differs by +/- 5%, it is estimated that amounts receivable from customers' would be £28.7m higher/lower.

#### Retirement benefit asset/obligation

A number of judgments and estimates are made in assessing the amount of the retirement benefit asset/obligation at each balance sheet date. These judgments and estimates are derived after taking into account the requirements of IAS 19 'Retirement Benefit Obligations' and after taking the advice of the Group's actuaries. Further details on the key assumptions used are set out in note 23.

#### Tax

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

# Notes to the financial statements

## 1. Segmental analysis

### Primary reporting format – geographical segments

Group	Revenue		Impairment		Profit before taxation	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Central Europe	493.2	367.1	106.0	64.3	106.0	79.3
UK – central costs	–	–	–	–	(13.2)	(11.6)
Established businesses	493.2	367.1	106.0	64.3	92.8	67.7
Mexico	48.4	38.8	17.2	18.4	(8.7)	(13.2)
Romania	15.5	3.9	4.0	0.5	(7.8)	(4.2)
Russia	–	–	–	–	(6.0)	(0.5)
Total before exceptional demerger costs	557.1	409.8	127.2	83.2	70.3	49.8
Exceptional demerger costs (note 31)	–	–	–	–	–	(2.8)
<b>Total</b>	<b>557.1</b>	<b>409.8</b>	<b>127.2</b>	<b>83.2</b>	<b>70.3</b>	<b>47.0</b>

Revenue and impairment in respect of Russia for the year ended 31 December 2008 is less than £0.1m (2007: £nil).

Group	Segment assets		Segment liabilities	
	2008 £m	2007 £m	2008 £m	2007 £m
Central Europe	602.4	512.1	398.1	356.8
Mexico	52.1	39.3	46.2	37.5
Romania	36.3	9.7	8.0	16.0
Russia	5.3	1.2	1.6	0.2
UK	68.8	68.4	52.2	16.6
<b>Total</b>	<b>764.9</b>	<b>630.7</b>	<b>506.1</b>	<b>427.1</b>

Group	Capital expenditure		Depreciation	
	2008 £m	2007 £m	2008 £m	2007 £m
Central Europe	15.6	14.9	8.9	6.7
Mexico	0.8	1.0	1.3	0.9
Romania	2.0	1.4	0.8	0.3
Russia	1.0	–	0.1	–
UK	2.1	5.4	2.3	1.7
<b>Total</b>	<b>21.5</b>	<b>22.7</b>	<b>13.4</b>	<b>9.6</b>

Expenditure on intangible assets of £3.2m (2007: £5.1m) and amortisation of £4.4m (2007: £3.4m) all relates to the UK.

The provision of home credit is the only business segment operated by the Group and therefore a secondary segmental analysis is not provided.

## 2. Finance costs

Group	2008 £m	2007 £m
Interest payable on bank borrowings	29.5	22.3

## 3. Profit before taxation

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

Group	2008 £m	2007 £m
Depreciation of property, plant and equipment (note 12)	13.4	9.6
Profit on disposal of property, plant and equipment	(0.1)	(0.2)
Amortisation of intangible assets (note 10)	4.4	3.4
Operating lease rentals:		
– property	12.9	9.9
– equipment	0.7	0.5
Share-based payment charge (note 24)	2.1	1.1
Defined benefit pension scheme charge/(credit) (note 23)	0.3	(0.1)
Exceptional demerger costs (note 31)	–	2.8

#### 4. Auditors' remuneration

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

Group	2008 £m	2007 £m
Fees payable to the Company auditors for the audit of the Parent Company and consolidated financial statements	0.1	0.1
Fees payable to the Company auditors and its associates for other services:		
– audit of Company's subsidiaries pursuant to legislation	0.3	0.2
– tax services	0.1	0.1
– other services	0.3	0.1

#### 5. Tax expense

Group	2008 £m	2007 £m
Total current tax	22.0	23.3
Total deferred tax (note 13)	(2.3)	(8.8)
<b>Tax expense</b>	<b>19.7</b>	<b>14.5</b>

The tax credit in respect of exceptional demerger costs in 2007 was £0.4m.

Group	2008 £m	2007 £m
<b>Tax credit on items taken directly to equity</b>		
Deferred tax (credit)/charge on net fair value gains – cash flow hedges	(2.5)	0.4
Deferred tax credit on actuarial losses on retirement benefit asset/obligation	(0.9)	(0.5)
	<b>(3.4)</b>	<b>(0.1)</b>

The rate of tax expense on the profit before taxation for the year ended 31 December 2008 is lower than (2007: higher than) the standard rate of corporation tax in the UK of 28.5% (2007: 30.0%). The differences are explained as follows:

Group	2008 £m	2007 £m
Profit before taxation	70.3	47.0
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	20.0	14.1
Effects of:		
– adjustment in respect of prior years	0.8	(1.0)
– adjustment in respect of foreign tax rates	(8.0)	(4.6)
– expenses not deductible for tax purposes	4.3	5.0
– overseas taxable dividends	2.6	1.0
<b>Total tax expense</b>	<b>19.7</b>	<b>14.5</b>

#### 6. Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the earnings attributable to shareholders of £50.6m (2007: £32.5m) by the weighted average number of shares in issue during the period of 256.5 million (2007: 257.2 million) which has been adjusted to exclude the weighted average number of shares held by the employee trust.

For diluted EPS, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares relating to employees of the Group.

The weighted average number of shares used in the basic and diluted EPS calculations can be reconciled as follows:

Group	2008 m	2007 m
Used in basic EPS calculation	256.5	257.2
Dilutive effect of awards	0.4	0.3
<b>Used in diluted EPS calculation</b>	<b>256.9</b>	<b>257.5</b>

Basic and diluted EPS are presented below:

Group	2008 pence	2007 pence
Basic EPS	19.73	12.64
Dilutive effect of awards	(0.03)	(0.02)
<b>Diluted EPS</b>	<b>19.70</b>	<b>12.62</b>

A pro forma EPS and a reconciliation to the statutory EPS is presented in note 32.

## Notes to the financial statements continued

### 7. Dividends

Group and Company	2008 £m	2007 £m
Interim dividend of 2.30 pence per share (2007: 1.90 pence per share)	5.9	4.9
Final 2007 dividend of 2.85 pence per share	7.3	–
	<b>13.2</b>	<b>4.9</b>

The directors are recommending a final dividend in respect of the financial year ended 31 December 2008 of 3.40 pence per share which will amount to a full year dividend payment of £8.6m. If approved by the shareholders at the annual general meeting, this dividend will be paid on 22 May 2009 to shareholders who are on the register of members at 17 April 2009. This dividend is not reflected as a liability in the balance sheet as at 31 December 2008 as it is subject to shareholder approval.

### 8. Remuneration of key management personnel

The key management personnel (as defined by IAS 24 'Related Party Disclosures') of the Group are deemed to be the executive and non-executive directors of IPF plc and the members of the management team specified in the senior management team section of this annual report.

Group	2008 £m	2007 £m
Short-term employee benefits	4.9	3.5
Post-employment benefits	0.3	0.3
	<b>5.2</b>	<b>3.8</b>

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year. Post-employment benefits represent the sum of (i) the increase in the transfer value of the accrued pension benefits (less contributions); and (ii) Group contributions into personal pension arrangements.

Disclosures in respect of the Group's highest paid director are included in the directors' remuneration report.

### 9. Employee information

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

Group	2008 Number	2007 Number
Full-time*	5,640	5,157
Part-time**	4,589	4,665
	<b>10,229</b>	<b>9,822</b>

\*Includes 207 agents in Hungary (2007: nil).

\*\*Includes 3,954 agents in Hungary (2007: 4,110).

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

Group employment costs – all employees (including directors):

Group	2008 £m	2007 £m
Gross wages and salaries	102.7	81.7
Social security costs	24.9	20.9
Pension charge/(credit) – defined benefit schemes (note 23)	0.3	(3.6)
Pension charge – defined contribution schemes	0.5	0.3
Share-based payment charge	2.1	3.5
<b>Total</b>	<b>130.5</b>	<b>102.8</b>

## 10. Intangible assets

Group	2008			2007		
	Banking licence £m	Computer software £m	Total £m	Banking licence £m	Computer software £m	Total £m
<b>Net book amount</b>						
At 1 January	3.0	15.7	18.7	–	14.0	14.0
Additions	–	3.2	3.2	–	5.1	5.1
Acquisition of subsidiary	–	–	–	3.0	–	3.0
Amortisation	–	(4.4)	(4.4)	–	(3.4)	(3.4)
<b>At 31 December</b>	<b>3.0</b>	<b>14.5</b>	<b>17.5</b>	<b>3.0</b>	<b>15.7</b>	<b>18.7</b>
Analysed as:						
Cost	3.0	22.3	25.3	3.0	19.1	22.1
Amortisation	–	(7.8)	(7.8)	–	(3.4)	(3.4)
<b>At 31 December</b>	<b>3.0</b>	<b>14.5</b>	<b>17.5</b>	<b>3.0</b>	<b>15.7</b>	<b>18.7</b>

The Company has no intangible assets.

The banking licence relates to the licence to trade as a bank in Russia. The fair value of this banking licence is equal to £3.0m. As required by IAS 36 this asset has been tested for impairment at the balance sheet date. No impairment has been charged.

## 11. Investment in subsidiaries

Company	2008 £m	2007 £m
Investment in subsidiary	663.6	663.6
Share-based payment adjustment	1.5	0.4
	<b>665.1</b>	<b>664.0</b>

IPF plc acquired the international businesses of the Provident Financial plc group on 16 July 2007 by issuing one IPF plc share to the shareholders of Provident Financial plc for each Provident Financial plc share held by them. The fair value of the consideration issued in exchange for the investment in these international businesses was £663.6m and this amount was therefore capitalised as a cost of investment. A further £1.5m (2007: £0.4m) has been added to the cost of investment representing the fair value of the share-based payment awards over IPF plc shares made to employees of subsidiary companies of IPF plc. The corresponding credit has been taken to reserves.

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

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

## Notes to the financial statements continued

### 12. Property, plant and equipment

#### Equipment and vehicles, fixtures and fittings

Group	2008 £m	2007 £m
<b>Cost</b>		
At 1 January	66.6	48.8
Exchange adjustments	12.4	5.9
Additions	21.5	22.7
Disposals	(8.4)	(10.8)
<b>At 31 December</b>	<b>92.1</b>	<b>66.6</b>
<b>Depreciation</b>		
At 1 January	25.8	18.6
Exchange adjustments	5.4	2.7
Charge to the income statement	13.4	9.6
Disposals	(4.9)	(5.1)
At 31 December	39.7	25.8
<b>Net book value at 31 December</b>	<b>52.4</b>	<b>40.8</b>

There is no difference between the carrying values stated above and the amounts stated on a historical cost basis.

The Company has no property, plant and equipment.

### 13. Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method using the appropriate tax rate for the jurisdiction in which the temporary difference arises. The movement in the deferred tax balance during the year can be analysed as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
At 1 January	27.8	15.7	(0.1)	–
Exchange differences	4.0	3.2	–	–
Credit/(charge) to the income statement	2.3	8.8	0.4	(0.2)
Tax credit on items taken directly to equity	3.4	0.1	0.1	0.1
<b>At 31 December</b>	<b>37.5</b>	<b>27.8</b>	<b>0.4</b>	<b>(0.1)</b>

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

	Group				Company		
	Losses £m	Retirement benefit obligations £m	Other temporary differences £m	Total £m	Retirement benefit obligations £m	Other temporary differences £m	Total £m
At 1 January 2008	1.3	(0.4)	26.9	27.8	(0.1)	–	(0.1)
Exchange differences	0.3	–	3.7	4.0	–	–	–
Credit to the income statement	1.2	–	1.1	2.3	–	0.4	0.4
Tax credit on items taken directly to equity	–	0.9	2.5	3.4	0.2	(0.1)	0.1
<b>At 31 December 2008</b>	<b>2.8</b>	<b>0.5</b>	<b>34.2</b>	<b>37.5</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Deferred tax has not been provided on approximately £196.9m of unremitted earnings of the Group's overseas subsidiaries. The Group's policy is to retain profits in such overseas subsidiaries in circumstances where a distribution would generate a tax cost in the UK. Profits will only be repatriated where it is assessed that any liability that would otherwise arise will be substantially covered by foreign tax credits. During 2008 £52.0m of profits arising overseas were repatriated, without giving rise to any UK tax.

## 14. Amounts receivable from customers

Group	2008 £m	2007 £m
Amounts receivable from customers comprise:		
– amounts due within one year	552.2	422.7
– amounts due in more than one year	22.2	20.5
	<b>574.4</b>	<b>443.2</b>

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

Group	2008 £m	2007 £m
Polish zloty	270.5	224.6
Czech crown	100.8	79.9
Slovak crown	36.9	25.6
Hungarian forint	105.4	84.9
Central European currencies	513.6	415.0
Mexican peso	38.1	22.9
Romanian leu	22.7	5.3
	<b>574.4</b>	<b>443.2</b>

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the average EIR of 120% (2007: 125%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 5.3 months (2007: 5.4 months).

The Group has only 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 £328.8m (2007: £234.6m).

## 15. Cash and cash equivalents

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash at bank and in hand	57.0	48.9	0.7	0.4
Short-term deposits	5.2	39.9	–	6.0
<b>Total</b>	<b>62.2</b>	<b>88.8</b>	<b>0.7</b>	<b>6.4</b>

At 31 December 2008 £5.1m (2007: £24.0m) of the short-term deposits and £3.0m (2007: £0.2m) of the cash at bank and in hand are held by a company in the Group that is separately regulated. The regulators of this company require its cash balances to be retained within the company and these monies cannot be used to finance other parts of the Group or to repay borrowings of the Group.

The average period to maturity of the short-term deposits is one month (2007: one month). The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Sterling	8.2	36.2	0.1	6.3
Polish zloty	20.0	28.5	–	0.1
Czech crown	8.4	11.1	0.1	–
Slovak crown	2.7	1.2	–	–
Hungarian forint	6.8	6.4	–	–
Mexican peso	3.4	2.8	–	–
Romanian leu	10.1	1.4	0.5	–
Russian rouble	2.6	1.2	–	–
<b>Total</b>	<b>62.2</b>	<b>88.8</b>	<b>0.7</b>	<b>6.4</b>

All of the cash and cash equivalents accrue interest at floating rates linked to the relevant national reference rate. The weighted average fixed interest rate on cash and cash equivalents was 2.00% (2007: 5.36%).

## Notes to the financial statements continued

### 16. Trade and other receivables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade debtors	0.9	0.6	–	–
Other debtors	3.8	2.6	0.5	–
Prepayments and accrued income	14.5	5.8	1.1	0.2
Amounts due from Group undertakings	–	–	123.9	85.8
<b>Total</b>	<b>19.2</b>	<b>9.0</b>	<b>125.5</b>	<b>86.0</b>

The fair value of trade and other receivables at 31 December 2008 equates to their book value (2007: fair value equated to book value). No balance within trade and other receivables is impaired.

Amounts due from Group undertakings are unsecured and due for repayment in less than one year.

### 17. Trade and other payables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade creditors	2.6	4.6	0.9	2.5
Other creditors including taxation and social security	15.6	11.0	–	0.2
Accruals	35.2	35.0	2.7	–
Amounts due to Group undertakings	–	–	100.9	50.2
<b>Total</b>	<b>53.4</b>	<b>50.6</b>	<b>104.5</b>	<b>52.9</b>

The fair value of trade and other payables at 31 December 2008 equates to their book value (2007: fair value equated to book value).

Amounts due to Group undertakings are unsecured and due for repayment in less than one year.

### 18. Borrowing facilities and borrowings

External bank borrowing facilities principally comprise arrangements with banks for committed revolving loan facilities and overdrafts in a number of currencies for periods of up to three years and an uncommitted overdraft which is repayable on demand. At 31 December 2008 borrowings under these facilities amounted to £434.3m (2007: £370.8m). All borrowings are unsecured.

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Borrowing facilities available</b>				
Repayable:				
– on demand	5.0	5.0	5.0	5.0
– in less than one year	33.2	29.3	–	–
– between one and two years	187.2	–	78.2	–
– between two and five years	438.4	516.9	142.9	178.7
<b>Total</b>	<b>663.8</b>	<b>551.2</b>	<b>226.1</b>	<b>183.7</b>

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Borrowings</b>				
Repayable:				
– in less than one year	1.2	8.8	–	–
– between one and two years	134.9	–	25.9	–
– between two and five years	298.2	362.0	27.7	47.1
<b>Total</b>	<b>434.3</b>	<b>370.8</b>	<b>53.6</b>	<b>47.1</b>

The average period to maturity of the Group's committed external bank facilities was 2.3 years (2007: 2.2 years).

## 18. Borrowing facilities and borrowings continued

The currency exposure on external bank borrowings is as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Sterling	29.0	15.0	29.0	15.0
Euro	–	2.9	–	2.9
Polish zloty	213.9	167.8	20.6	18.2
Czech crown	55.9	54.3	3.0	2.4
Slovak crown	37.0	28.2	–	–
Hungarian forint	52.6	60.1	–	–
Mexican peso	39.8	33.9	–	–
Romania leu	6.1	8.6	1.0	8.6
<b>Total</b>	<b>434.3</b>	<b>370.8</b>	<b>53.6</b>	<b>47.1</b>

All of the external bank borrowings held by the Group have floating interest rates, however, as discussed in note 19 the Group's policy is to fix the interest on a large proportion of borrowings using derivative contracts.

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Expiring within one year	37.0	25.5	5.0	5.0
Expiring within one to two years	52.3	–	52.3	–
Expiring in more than two years	140.2	154.9	115.2	131.6
<b>Total</b>	<b>229.5</b>	<b>180.4</b>	<b>172.5</b>	<b>136.6</b>

## 19. Derivative financial instruments

The fair value of derivative financial instruments is set out below:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Assets</b>				
Interest rate swaps	0.9	0.7	5.4	–
Foreign currency contracts	0.8	–	0.6	–
<b>Total</b>	<b>1.7</b>	<b>0.7</b>	<b>6.0</b>	<b>–</b>
<b>Liabilities</b>				
Interest rate swaps	9.8	0.2	5.1	–
Foreign currency contracts	4.6	0.5	4.6	0.2
<b>Total</b>	<b>14.4</b>	<b>0.7</b>	<b>9.7</b>	<b>0.2</b>

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

The Group uses interest rate swaps in order to fix the interest payable on a large proportion of its borrowings and foreign currency contracts to hedge against specified future foreign currency cash flows. In addition the Group also enters into foreign exchange forward contracts to economically hedge against forecast profits denominated in foreign currency. These foreign exchange contracts do not hedge against a specific future cash flow so do not qualify for hedge accounting; changes in their fair value are therefore taken to the income statement. None of these contracts were outstanding at the balance sheet date.

### Cash flow hedges

The Group uses interest rate swaps (cash flow hedges) to hedge those interest cash flows that are expected to occur within four years of the balance sheet date and foreign currency swaps (cash flow hedges) to hedge those foreign currency cash flows that are expected to occur within 12 months of the balance sheet date. The effect on the income statement will also be within these periods. An amount of £8.9m has been charged to equity for the Group in the period in respect of cash flow hedges (2007: credit of £1.4m), Company: credit of £0.2m (2007: £nil).

## Notes to the financial statements continued

### 19. Derivative financial instruments continued

#### Interest rate swaps

The total notional principal of outstanding interest rate swaps that the Group is committed to is £582.3m (2007: £250.1m). The total notional principal of outstanding interest rate swaps that the Company is committed to is £482.8m (2007: £nil). These interest rate swaps cover a proportion of both current borrowings and forecast future borrowings (which includes rollovers of current borrowings).

The majority of the interest rate swaps are designated, and are effective under IAS 39, as cash flow hedges, and the fair value thereof has been deferred in equity within the hedging reserve. A charge of £nil (2007: £0.2m) has been made to the income statement in the year representing the movement in the fair value of the ineffective portion of the interest rate swaps.

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

Group	2008			2007		
	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity Years	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity Years
Polish zloty	6.2	5.5–7.0	1.7	5.5	5.4–5.8	1.5
Czech crown	4.0	3.7–4.7	0.9	3.9	3.8–4.2	1.4
Slovak crown*	4.3	3.7–4.5	1.2	4.5	4.4–4.5	1.6
Hungarian forint	7.8	6.8–11.3	1.3	7.0	6.8–7.3	1.6
Mexican peso	9.5	8.2–11.7	1.9	8.5	8.2–9.7	1.5
Euro	3.9	3.5–4.5	2.7	–	–	–
Romanian leu	10.4	9.8–11.1	1.9	–	–	–

The weighted average interest rate and period to maturity of the Company interest rate swaps was as follows:

Company	2008			2007		
	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity Years	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity Years
Polish zloty	6.7	6.2–7.1	2.1	–	–	–
Czech crown	4.0	3.8–4.3	0.7	–	–	–
Slovak crown*	4.2	3.7–4.7	1.2	–	–	–
Hungarian forint	10.7	9.8–11.3	1.5	–	–	–
Euro	4.0	3.5–4.5	2.7	–	–	–
Romanian leu	10.5	9.8–11.3	1.9	–	–	–

\*The Slovak crown denominated swaps which were outstanding at 31 December 2008 were converted into Euro denominated swaps on 1 January 2009.

The Company enters into interest rate swaps with an external bank and then enters into an equal and offsetting swap with its subsidiaries to ensure there is a hedging relationship within the relevant subsidiary company. The Company held no interest rate swaps in 2007.

#### Foreign currency contracts

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2008 is £47.5m (2007: £30.7m). These comprise:

- foreign currency contracts to buy or sell various currencies for a total notional amount of £16.6m (2007: £17.6m). These contracts have various maturity dates up to October 2009 (2007: November 2008). These contracts have been designated and are effective as cash flow hedges under IAS 39 and accordingly the fair value thereof has been deferred in equity; and
- foreign currency contracts to buy or sell sterling for a total notional amount of £30.9m (2007: £13.1m). These contracts have various maturity dates up to March 2009 (2007: June 2008). These contracts exactly match the underlying item and therefore the amounts charged/credited to the income statement are offset by credits/charges in respect of the underlying item.

The total notional amount of outstanding foreign currency contracts that the Company is committed to at 31 December 2008 is £39.5m (2007: £13.1m). These comprise:

- foreign currency contracts to buy or sell sterling for a total notional amount of £30.9m (2007: £13.1m). These contracts have various maturity dates up to March 2009 (2007: June 2008). These contracts exactly match the underlying item and therefore the amounts charged/credited to the income statement are offset by credits/charges in respect of the underlying item;

## 19. Derivative financial instruments *continued*

- foreign currency contracts to buy or sell various currencies for a total notional amount of £2.0m (2007: £nil). These contracts have various maturity dates up to October 2009 (2007: November 2008). These contracts have been designated and are effective as cash flow hedges under IAS 39 and accordingly the fair value thereof has been deferred in equity; and
- foreign currency contracts to buy and sell various currencies for a total notional amount of £6.6m (2007: £nil). £3.3m of these contracts are held with external providers to buy and sell currency and £3.3m of these contracts are equal and off-setting contracts with other group companies to buy and sell the same amounts of currency. This leaves the Company with no residual risk and ensures the relevant subsidiary company has an effective foreign currency contract in its books.

## 20. Risks arising from financial instruments

### Risk management

#### Treasury related risks

The board approves treasury policies and the treasury function manages the day-to-day operations. The board delegates certain responsibilities to the treasury committee. The treasury committee, which is chaired by the Finance Director, is empowered to take decisions within that delegated authority. Treasury activities and compliance with the treasury policies are reported to the board on a regular basis and are subject to periodic independent reviews and audits, both internal and external. Treasury policies are designed to manage the main financial risks faced by the Group in relation to funding, investment and hedging. These policies ensure that the borrowings and investments are with high quality counterparties; are limited to specific instruments; the exposure to any one counterparty or type of instrument is controlled; and the Group's exposure to interest rate and exchange rate movements is maintained within set limits.

The treasury function enters into derivative transactions principally interest rate swaps, currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken and written options may only be used when matched by purchased options.

#### Amounts receivable from customers

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

#### Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates in each of its countries of operation and therefore seeks to limit this net exposure. This is achieved by the use of derivative instruments such as interest rate swaps to hedge a proportion of borrowings over a certain time period, usually four years.

Interest costs are a relatively low proportion of the Group's revenue (5.3% in 2008), and therefore the risk of a material variance arising from a change in interest rates is low. If interest rates across all markets increased by 200 basis points this would have the following impact:

Group	2008 £m	2007 £m
Increase in fair value of derivatives taken to equity	10.3	4.9
Reduction in profit before tax	3.0	4.8

This sensitivity analysis is based on the following assumptions:

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

#### Currency risk

The Group is subject to three types of currency risk; net asset exposure, cash flow exposure and profit and loss exposure.

#### Net asset exposure

The majority of the Group's net assets are denominated in currencies other than sterling. The consolidated balance sheet is reported in sterling and this means that there is a risk that a fluctuation in foreign exchange rates will have a material impact on the net assets of the Group. The Group aims to minimise the value of net assets denominated in each foreign currency by funding overseas receivables by borrowings in local currency. 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.

#### Cash flow exposure

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

## Notes to the financial statements continued

### 20. Risks arising from financial instruments continued

#### Profit and loss exposure

As with net assets, the majority of the Group's profit is denominated in currencies other than sterling but translated into sterling for reporting purposes. The result for the period is translated into sterling at the average exchange rate. A risk therefore arises that a fluctuation in the exchange rates in the countries in which the Group operates will have a material impact on the consolidated result for the period. The Group reduces the exposure to this risk by economically hedging a proportion of the budgeted profits which results in a currency variance in the trading result being partly offset by a gain or loss on the relevant foreign exchange contract.

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

Group	2008 £m	2007 £m
Change in profit and loss reserves	0.1	0.1
Change in profit before tax	0.2	0.2

This sensitivity analysis is based on the following assumptions:

- there is a 5% strengthening/weakening of sterling against all currencies the Group operates in (Polish zloty, Czech crown, Slovak crown, Hungarian forint, Mexican peso, Romanian leu and Russian rouble); and
- there is no impact on the profit or loss reserve or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

#### Credit risk

The Group is subject to credit risk in respect of the amounts receivable from customers and the cash and cash equivalents held on deposit with banks.

#### Amounts receivable from customers

The risk of material unexpected credit losses in respect of amounts receivable from customers is low as the Group lends small amounts over short-term periods to a large and diverse group of customers across the countries in which the Group operates. This risk is minimised by the use of credit scoring techniques which are designed to ensure we only lend to those customers who can afford the repayments. The amount lent to each customer and the repayment period agreed are dependent upon the risk category the customer is assigned to as part of the scoring process. The level of expected future losses is reviewed by management on a weekly basis by geographical segment in order to ensure that appropriate action can be taken if losses differ from management expectations.

#### Cash and cash equivalents

The Group only deposits cash with highly rated banks and sets strict limits in respect of the amount to be held on deposit with any one institution.

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

Group	2008 £m	2007 £m
Cash and cash equivalents	62.2	88.8
Amounts receivable from customers	574.4	443.2
Derivative financial instruments	1.7	0.7
Trade and other receivables	19.2	9.0
<b>Total</b>	<b>657.5</b>	<b>541.7</b>

The above table represents a worst case scenario of the credit risk that the Group is exposed to at the year end. An analysis of the amounts receivable from customers by geographical segment is presented in note 14 and of the cash and cash equivalents in note 15. Derivative financial instruments and trade and other debtors have not been presented by geographical segment as they are not considered significant.

Cash and cash equivalents, derivative financial instruments and trade and other debtors are neither past due nor impaired. Credit quality of these assets is good and the cash and cash equivalents are spread over a number of banks, each of which meets the criteria set out in our treasury policies which are explained further in the principal risks section of this report, to ensure the risk of loss is minimised.

Amounts receivable from customers are stated at amortised cost and calculated in accordance with the Group's accounting policies. Those amounts receivable from customers that are neither past due nor impaired represent loans where no customer payments have been missed and there is therefore no evidence to suggest that the credit quality is anything other than adequate.

The Group's accounting policy in respect of amounts receivable from customers requires that as soon as a customer misses any portion of a contractual payment the account is reviewed for impairment and the receivable is reduced to reflect the revised expected future cash flows. The result of this is that any loan which is past due (where a payment has been missed) will attract a deduction for impairment. Therefore amounts receivable from customers include no amounts that are past due but not impaired.

## 20. Risks arising from financial instruments continued

An analysis of the amounts receivable from customers that are individually determined to be impaired by geographical segment is set out below:

Group	Not impaired		Impaired	
	2008 £m	2007 £m	2008 £m	2007 £m
Central Europe	139.7	110.9	373.9	304.1
Mexico	11.9	5.7	26.2	17.2
Romania	11.2	3.0	11.5	2.3
	<b>162.8</b>	119.6	<b>411.6</b>	323.6

This analysis includes all loans that have been subject to impairment. The impairment charge is based on the average expected loss for each arrears stage of customer receivables and this average expected loss is applied to the entire arrears stage. This results in a significant proportion of the amounts receivable from customers attracting an impairment charge. For each market the amount by which an asset is impaired depends on the type of product, the recent payment performance and the number of weeks since the loan was issued. There will therefore be a large amount of receivables which are classed as impaired but where the carrying value is still a large proportion of the contractual amount recoverable. Annualised impairment as a percentage of revenue, which excludes the impact of provision releases, for each geographical market is shown below:

Group	2008 %	2007 %
Central Europe	21.9	19.2
Mexico	35.5	47.4
Romania	25.8	12.8

The carrying value of amounts receivable from customers that would have been impaired had their terms not been renegotiated is £nil (2007: £nil).

### Liquidity risk

The Group is subject to the risk that it will not have sufficient borrowing facilities to fund its existing business and its future plans for growth. The short-term nature of the Group's business means that the majority of amounts receivable from customers are receivable within 12 months with an average period to maturity of less than six months. The risk of not having sufficient liquid resources is therefore low. The treasury policy adopted by the Group serves to reduce this risk further by aiming to have (i) a diversity of funding sources across the banks which the Group uses and across the countries in which the Group operates; (ii) a balanced maturity profile of debt finance to mitigate refinancing risk; and (iii) committed facilities in excess of the forecast borrowing requirements. At 31 December 2008 the Group's committed borrowing facilities had an average period to maturity of 2.3 years (2007: 2.2 years). As shown in note 18 total undrawn facilities as at 31 December 2008 were £229.5m (2007: £180.4m).

In note 18 a maturity analysis of the gross borrowing included in the balance sheet is presented. A maturity analysis of bank borrowings and overdrafts outstanding at the balance sheet date by contractual cash flow, including expected interest payments, is shown below:

Group	2008 £m	2007 £m
Not later than six months	16.0	11.9
Later than six months and not later than one year	18.3	20.9
Later than one year and not later than two years	158.6	23.6
Later than two years and not later than five years	314.3	374.9
	<b>507.2</b>	431.3
Company	2008 £m	2007 £m
Not later than six months	1.5	1.6
Later than six months and not later than one year	1.4	1.6
Later than one year and not later than two years	28.3	3.2
Later than two years and not later than five years	29.1	49.2
	<b>60.3</b>	55.6

The above analysis includes the contractual cash flow for borrowings and the total amount of interest payable over the life of the loan. Where borrowings are subject to a floating interest rate an estimate of interest payable is taken.

## Notes to the financial statements continued

### 20. Risks arising from financial instruments continued

The following analysis shows the gross undiscounted contractual cash flows in respect of interest rate swap derivative liabilities and foreign currency contract derivative assets and liabilities which are all designated as cash flow hedges:

Group	2008		2007	
	Outflow £m	Inflow £m	Outflow £m	Inflow £m
Not later than one month	3.0	2.9	4.5	4.4
Later than one month and not later than six months	40.9	36.4	13.1	12.6
Later than six months and not later than one year	6.6	4.3	0.7	0.7
Later than one year and not later than two years	4.2	-	-	-
Later than two years and not later than five years	3.4	-	-	-
	<b>58.1</b>	<b>43.6</b>	18.3	17.7

  

Company	2008		2007	
	Outflow £m	Inflow £m	Outflow £m	Inflow £m
Not later than one month	2.1	2.0	3.0	3.0
Later than one month and not later than six months	37.7	32.4	10.5	10.2
Later than six months and not later than one year	5.5	2.2	-	-
Later than one year and not later than two years	5.0	-	-	-
Later than two years and not later than five years	2.2	-	-	-
	<b>52.5</b>	<b>36.6</b>	13.5	13.2

The outflow in respect of derivative liabilities occurring in later than one year will be broadly offset by inflows from derivative assets.

A maturity analysis of the Group's receivables and borrowing facilities as at 31 December 2008 is presented below:

Group	Receivables £m	Percentage of total %	Borrowing facilities £m	Percentage of total %
Less than one year	552.2	96.1	38.2	5.8
Later than one year	22.2	3.9	625.6	94.2
	<b>574.4</b>	<b>100.0</b>	<b>663.8</b>	<b>100.0</b>

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

#### Capital risk

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

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

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

Group	2008 £m	2007 £m
Receivables	574.4	443.2
Borrowings	(434.3)	(370.8)
Other net assets	118.7	131.2
Equity	258.8	203.6
Equity as % of receivables	45.1%	45.9%
Gearing	1.7	1.8

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

Gearing, which is equal to borrowings divided by net assets, at a ratio of 1.7 times (2007: 1.8 times), is well within covenant limits.

## 21. Analysis of financial assets and financial liabilities

### Financial assets

An analysis of Group financial assets is presented below:

Group	2008			2007		
	Loans and receivables £m	Derivatives used for hedging £m	Total £m	Loans and receivables £m	Derivatives used for hedging £m	Total £m
Cash and cash equivalents	62.2	–	62.2	88.8	–	88.8
Amounts receivable from customers	574.4	–	574.4	443.2	–	443.2
Derivative financial instruments	–	1.7	1.7	–	0.7	0.7
Trade and other receivables	19.2	–	19.2	9.0	–	9.0
	<b>655.8</b>	<b>1.7</b>	<b>657.5</b>	<b>541.0</b>	<b>0.7</b>	<b>541.7</b>

### Financial liabilities

An analysis of Group financial liabilities is presented below:

Group	2008			2007		
	Other financial liabilities £m	Derivatives used for hedging £m	Total £m	Other financial liabilities £m	Derivatives used for hedging £m	Total £m
Bank borrowings	434.3	–	434.3	370.8	–	370.8
Trade and other payables	53.4	–	53.4	50.6	–	50.6
Derivative financial instruments	–	14.4	14.4	–	0.7	0.7
Current tax liabilities	2.5	–	2.5	5.0	–	5.0
	<b>490.2</b>	<b>14.4</b>	<b>504.6</b>	<b>426.4</b>	<b>0.7</b>	<b>427.1</b>

## 22. Fair values of financial assets and liabilities

The fair value and carrying value of the financial assets and liabilities of the Group are set out below:

Group	2008		2007	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
<b>Financial assets</b>				
Cash and cash equivalents	62.2	62.2	88.8	88.8
Amounts receivable from customers	800.0	574.4	600.0	443.2
Derivative financial instruments	1.7	1.7	0.7	0.7
Trade and other receivables	19.2	19.2	9.0	9.0
	<b>883.1</b>	<b>657.5</b>	<b>698.5</b>	<b>541.7</b>
<b>Financial liabilities</b>				
Bank borrowings	434.3	434.3	370.8	370.8
Trade and other payables	53.4	53.4	50.6	50.6
Derivative financial instruments	14.4	14.4	0.7	0.7
Current tax liabilities	2.5	2.5	5.0	5.0
	<b>504.6</b>	<b>504.6</b>	<b>427.1</b>	<b>427.1</b>

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (net of collection costs) at an appropriate discount rate.

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

Derivative financial instruments are held at fair value which is equal to the expected future cash flows arising as a result of the derivative transaction.

For other financial assets and liabilities, which are all short-term in nature, the carrying value is a reasonable approximation of fair value.

## Notes to the financial statements continued

### 23. Retirement benefit obligations

#### a) Pension schemes – defined benefit

Prior to 16 July 2007 certain of the Group's employees were members of two funded defined benefit pension schemes operated by Provident Financial plc. As part of the demerger, it was agreed that the companies and employees of the new International Personal Finance plc group ('the Group') would continue to participate in the Provident Financial plc pension scheme arrangements until 31 December 2007.

On 1 January 2008, the Group set up a new funded defined benefit scheme for those individuals who had previously been members of the schemes operated by Provident Financial plc. As part of the demerger agreement, the liabilities relating to the past and present employees of the Group were transferred from the Provident Financial plc schemes to the new scheme together with an agreed amount of assets. The amount of assets transferred was equal to the value of liabilities on 16 July 2007 adjusted to allow for subsequent investment returns and cash flows plus £3.5m.

Scheme assets are stated at fair value at 31 December 2008. The major assumptions used by the actuary were:

Group and Company	2008 %	2007 %
Price inflation	2.9	3.4
Rate of increase in pensionable salaries	4.4	5.0
Rate of increase to pensions in payment	2.9	3.4
Discount rate	6.2	5.7
Long-term rate of return:		
– equities	7.1	7.9
– bonds	6.7	4.7
– index-linked gilts	3.6	4.3
– other	–	4.5
– overall (weighted average)	6.2	6.3

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The mortality assumptions are based on standard tables which allow for future mortality improvements. Different assumptions are used for different groups of members. Most members have not yet retired. On average, we expect a male retiring in the future at age 65 to live for a further 23 years. On average, we expect a female retiring in the future at age 65 to live for a further 26 years. If assumed life expectancies had been assumed to be one year greater for all members, the charge to the income statement would have increased by £0.1m and the present value of defined benefit obligations would have increased by approximately £0.8m.

The amounts recognised in the balance sheet are as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Equities	14.7	17.6	3.2	3.8
Bonds	5.9	4.8	1.3	1.1
Index-linked gilts	4.0	4.8	0.9	1.1
Other	2.1	4.7	0.5	1.0
Total fair value of scheme assets	26.7	31.9	5.9	7.0
Present value of funded defined benefit obligations	(28.2)	(30.2)	(6.2)	(6.6)
<b>Net (obligation)/asset recognised in the balance sheet</b>	<b>(1.5)</b>	<b>1.7</b>	<b>(0.3)</b>	<b>0.4</b>

The amounts recognised in the income statement are as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Current service cost	0.6	0.1	0.1	–
Interest cost	1.7	0.8	0.4	0.2
Expected return on scheme assets	(2.0)	(1.0)	(0.4)	(0.2)
	0.3	(0.1)	0.1	–
Exceptional credit on demerger	–	(3.5)	–	(0.8)
<b>Net charge/(credit) recognised in the income statement</b>	<b>0.3</b>	<b>(3.6)</b>	<b>0.1</b>	<b>(0.8)</b>

The net charge/(credit) recognised in the income statement has been included within administrative expenses.

### 23. Retirement benefit obligations continued

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Fair value of scheme assets at 1 January	31.9	–	7.0	–
Transfer from Provident Financial plc	–	30.9	–	6.8
Expected return on scheme assets	2.0	1.0	0.4	0.2
Actuarial losses on scheme assets	(6.7)	(0.1)	(1.4)	–
Contributions by the Group	0.4	0.1	0.1	–
Contributions paid by scheme participants	0.1	0.1	–	–
Net benefits paid out	(1.0)	(0.1)	(0.2)	–
<b>Fair value of scheme assets at 31 December</b>	<b>26.7</b>	<b>31.9</b>	<b>5.9</b>	<b>7.0</b>

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Defined benefit obligation at 1 January	(30.2)	–	(6.6)	–
Transfer from Provident Financial plc	–	(27.4)	–	(6.0)
Current service cost	(0.6)	(0.1)	(0.1)	–
Interest cost	(1.7)	(0.8)	(0.4)	(0.2)
Contributions paid by scheme participants	(0.1)	(0.1)	–	–
Actuarial gains/(losses) on scheme liabilities	3.4	(1.9)	0.7	(0.4)
Net benefits paid out	1.0	0.1	0.2	–
<b>Defined benefit obligation at 31 December</b>	<b>(28.2)</b>	<b>(30.2)</b>	<b>(6.2)</b>	<b>(6.6)</b>

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Expected return on scheme assets	2.0	1.0	0.4	0.2
Actuarial losses on scheme assets	(6.7)	(0.1)	(1.4)	–
<b>Actual return on scheme assets</b>	<b>(4.7)</b>	<b>0.9</b>	<b>(1.0)</b>	<b>0.2</b>

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

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Actuarial losses on scheme assets	(6.7)	(0.1)	(1.4)	–
Actuarial gains/(losses) on scheme liabilities	3.4	(1.9)	0.7	(0.4)
Total loss recognised in the SORIE in the year	(3.3)	(2.0)	(0.7)	(0.4)
<b>Cumulative amount of losses recognised in the SORIE</b>	<b>(5.3)</b>	<b>(2.0)</b>	<b>(1.1)</b>	<b>(0.4)</b>

The history of experience adjustments is as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Experience losses on scheme assets:				
– amount (£m)	(6.7)	(0.1)	(1.4)	–
– percentage of scheme assets (%)	(25.1%)	(0.3%)	(23.7%)	–
Experience losses on scheme liabilities:				
– amount (£m)	–	–	–	–
– percentage of scheme liabilities (%)	–	–	–	–

## Notes to the financial statements continued

### 23. Retirement benefit obligations continued

#### b) Pension schemes – defined contribution

The defined benefit pension arrangements are no longer open to new members. All eligible UK employees joining are now invited to join a stakeholder pension plan into which the Group contributes 8% of members' pensionable earnings, provided the employee contributes a minimum of 6%. The assets of the scheme are held separately from those of the Group. The pension charge in the income statement represents contributions payable by the Group in respect of the plan and amounted to £0.2m for the year ended 31 December 2008 (2007: £0.1m). £nil of contributions were payable to the plan at the year end (2007: £nil).

In addition an amount of £0.3m (2007: £0.2m) has been charged to the income statement in respect of contributions into personal pension arrangements for certain directors and employees.

### 24. Share-based payments

The Group operates four share schemes: The International Personal Finance plc Incentive Plan ('the Incentive Plan'), The International Personal Finance plc Performance Share Plan ('the Performance Share Plan'), The International Personal Finance plc Exchange Share Scheme ('the Exchange Scheme') and The International Personal Finance plc Employee Savings-Related Share Option Scheme ('the SAYE Scheme').

The income statement charge in respect of the Incentive Plan and the Performance Share Plan has been calculated using a Monte Carlo simulation model as these schemes are subject to a Total Shareholder Return ('TSR') performance target. The income statement charge in respect of the SAYE scheme is calculated using a binominal option pricing model. The total income statement charge in respect of these share-based payments is £2.1m (2007: £0.9m).

The income statement charge in respect of the Exchange Scheme is equal to the fair value of the shares at the date of award (share price at date of award adjusted for dividends). All awards will be equity settled. The total income statement charge in respect of these share-based payments is £nil (2007: £0.8m). The 2007 cost was included within exceptional demerger costs.

In 2007 a charge of £1.6m was charged to the income statement in respect of an accelerated charge for share options over shares in Provident Financial plc which had been granted to Group employees and which became exercisable on demerger and a charge of £0.2m was made in respect of share options over shares in Provident Financial plc prior to demerger.

The fair value per award granted and the assumptions used in the calculation of the share-based payment charge are as follows:

	Incentive Plan	Performance Share Plan	Exchange Scheme	SAYE Scheme
Grant date	20 July 2007	20 July 2007	20 July 2007	02 April 2008
Share price at award date (£)	2.50	2.50	2.50	2.28
Base price for TSR	2.26	2.26	n/a	n/a
Exercise price (£)	nil	nil	nil	1.88
Share awards outstanding	n/a	1,951,129	357,626	288,278
Vesting period (years)	3-4	3-4	2	3, 5 and 7
Expected volatility	30.0%	30.0%	n/a	30.0%
Award life (years)	3	3	2	Up to 7
Expected life (years)	3	3	2	Up to 7
Risk-free rate	5.7%	5.7%	n/a	5.7%
Expected dividends expressed as a dividend yield	2.8%	2.8%	2.8%	2.8%
Deferred portion	50.0%	50.0%	n/a	n/a
TSR threshold	30.0%	30.0%	n/a	n/a
TSR maximum target	n/a	60.0%	n/a	n/a
Fair value per award (£)	n/a	1.10-1.13	2.40	0.68-0.85

No exercise price is payable in respect of awards made under the Incentive Plan, Performance Share Plan and Exchange Scheme. As IPF plc shares have only been publicly traded since the date of demerger (16 July 2007) the expected volatility is based on the three-year volatilities of comparable companies. The risk-free rate of return is the yield on zero coupon UK government bonds with a remaining term equal to the expected life of the award. For the Performance Share Plan the maximum number of shares that will be awarded is 1,951,129 assuming the 60% TSR target is met, for the Incentive Plan there is no maximum number of shares. For both the Performance Share Plan and the Incentive Plan the fair value has been calculated based on an estimate of the amount of shares likely to vest.

Further detail in respect of the Incentive Plan, Performance Share Plan, Exchange Scheme and SAYE scheme is given in the directors' remuneration report.

## 24. Share-based payments continued

The movements in the outstanding awards are outlined in the table below:

Group	Performance Share Plan		Exchange Scheme		SAYE Scheme	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January 2008	1,483,799	-	391,590	-	-	-
Granted	809,160	-	-	-	296,957	1.88
Expired/Lapsed	(341,830)	-	(26,210)	-	(8,679)	1.88
Exercised	-	-	(7,754)	-	-	-
Outstanding at 31 December 2008	1,951,129	-	357,626	-	288,278	1.88
Exercisable at 31 December 2008	-	-	-	-	-	-
Outstanding at 1 January 2007	-	-	-	-	-	-
Granted	1,592,193	-	420,674	-	-	-
Expired/Lapsed	(108,394)	-	(29,084)	-	-	-
Exercised	-	-	-	-	-	-
Outstanding at 31 December 2007	1,483,799	-	391,590	-	-	-
Exercisable at 31 December 2007	-	-	-	-	-	-

## 25. Share capital

Company	2008 £m	2007 £m
257,217,888 shares at a nominal value of 10p	25.7	25.7

## 26. Statement of changes in shareholders' equity

Group	Called-up share capital £m	Other reserve £m	Foreign exchange reserve £m	Hedging reserve £m	Shares held by employee trust £m	Retained earnings £m	Total equity £m
At 1 January 2007	3.2	-	6.4	(0.7)	-	73.0	81.9
Exchange gains on foreign currency translation	-	-	21.1	-	-	-	21.1
Net fair value gains – cash flow hedges	-	-	-	1.4	-	-	1.4
Actuarial losses on retirement benefit asset	-	-	-	-	-	(2.0)	(2.0)
Tax (charge)/credit on items taken to equity	-	-	-	(0.4)	-	0.5	0.1
Net income/(expense) recognised directly in equity	-	-	21.1	1.0	-	(1.5)	20.6
Profit after taxation for the year	-	-	-	-	-	32.5	32.5
Total recognised income for the year	-	-	21.1	1.0	-	31.0	53.1
Increase in share capital	437.3	226.3	-	-	-	-	663.6
Capital reorganisation and reverse acquisition adjustment	(414.8)	(248.8)	-	-	-	-	(663.6)
Capital contribution	-	-	-	-	-	70.0	70.0
Share-based payment adjustment to reserves	-	-	-	-	-	3.5	3.5
Dividends paid to Company shareholders	-	-	-	-	-	(4.9)	(4.9)
At 31 December 2007	25.7	(22.5)	27.5	0.3	-	172.6	203.6
<b>At 1 January 2008</b>	<b>25.7</b>	<b>(22.5)</b>	<b>27.5</b>	<b>0.3</b>	<b>-</b>	<b>172.6</b>	<b>203.6</b>
Exchange gains on foreign currency translation	-	-	30.2	-	-	-	30.2
Net fair value losses – cash flow hedges	-	-	-	(8.9)	-	-	(8.9)
Actuarial losses on retirement benefit asset/obligation	-	-	-	-	-	(3.3)	(3.3)
Tax credit on items taken to equity	-	-	-	2.5	-	0.9	3.4
Net income/(expense) recognised directly in equity	-	-	30.2	(6.4)	-	(2.4)	21.4
Profit after taxation for the year	-	-	-	-	-	50.6	50.6
Total recognised income/(expense) for the year	-	-	30.2	(6.4)	-	48.2	72.0
Share-based payment adjustment to reserves	-	-	-	-	-	2.1	2.1
Purchase of shares by employee trust	-	-	-	-	(5.7)	-	(5.7)
Dividends paid to Company shareholders	-	-	-	-	-	(13.2)	(13.2)
<b>At 31 December 2008</b>	<b>25.7</b>	<b>(22.5)</b>	<b>57.7</b>	<b>(6.1)</b>	<b>(5.7)</b>	<b>209.7</b>	<b>258.8</b>

## Notes to the financial statements continued

### 26. Statement of changes in shareholders' equity continued

Company	Called-up share capital £m	Other reserve £m	Hedging reserve £m	Shares held by employee trust £m	Retained earnings £m	Total equity £m
At 1 January 2007	–	–	–	–	–	–
Actuarial losses on retirement benefit asset	–	–	–	–	(0.4)	(0.4)
Tax credit on items taken to equity	–	–	–	–	0.1	0.1
Net expense recognised directly in equity	–	–	–	–	(0.3)	(0.3)
Loss after taxation for the period	–	–	–	–	(2.8)	(2.8)
Total recognised expense for the period	–	–	–	–	(3.1)	(3.1)
Issue of new share capital	437.3	226.3	–	–	–	663.6
Capital reduction	(411.6)	–	–	–	411.6	–
Share-based payment adjustment to reserves	–	–	–	–	0.9	0.9
Dividends paid to Company shareholders	–	–	–	–	(4.9)	(4.9)
At 31 December 2007	25.7	226.3	–	–	404.5	656.5
At 1 January 2008	<b>25.7</b>	<b>226.3</b>	–	–	<b>404.5</b>	<b>656.5</b>
Net fair value gains – cash flow hedges	–	–	0.2	–	–	0.2
Actuarial losses on retirement benefit asset	–	–	–	–	(0.7)	(0.7)
Tax (charge)/credit on items taken to equity	–	–	(0.1)	–	0.2	0.1
Net expense recognised directly in equity	–	–	0.1	–	(0.5)	(0.4)
Loss after taxation for the period	–	–	–	–	(9.7)	(9.7)
Total recognised income/(expense) for the period	–	–	0.1	–	(10.2)	(10.1)
Purchase of shares by employee trust	–	–	–	(5.7)	–	(5.7)
Share-based payment adjustment to reserves	–	–	–	–	2.1	2.1
Dividends paid to Company shareholders	–	–	–	–	(13.2)	(13.2)
<b>At 31 December 2008</b>	<b>25.7</b>	<b>226.3</b>	<b>0.1</b>	<b>(5.7)</b>	<b>383.2</b>	<b>629.6</b>

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

An employee trust established by the Company purchased 4 million shares on various dates between 22 October 2008 and 7 November 2008 at a cost of £5.7m. These shares have been purchased in order to satisfy future vestings of awards and options under the Company's various equity incentive schemes.

The Company has elected to take the exemption under section 230 of the Companies Act 1985 to not present the Parent Company income statement. The loss after taxation of the Parent Company for the period was £9.7m.

## 27. Reconciliation of profit after taxation to cash generated from/(used in) operations

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Profit/(loss) after taxation	<b>50.6</b>	32.5	<b>(9.7)</b>	(2.8)
Adjusted for:				
– tax charge/(credit)	<b>19.7</b>	14.5	<b>3.5</b>	(1.4)
– finance costs	<b>29.5</b>	22.3	<b>8.7</b>	2.0
– finance income	<b>-</b>	-	<b>(4.4)</b>	(1.3)
– share-based payment charge	<b>2.1</b>	3.5	<b>1.1</b>	0.5
– defined benefit pension charge/(credit) (note 23)	<b>0.3</b>	(3.6)	<b>0.1</b>	(0.8)
– depreciation of property, plant and equipment (note 12)	<b>13.4</b>	9.6	-	-
– profit on sale of property, plant and equipment	<b>(0.1)</b>	(0.2)	-	-
– amortisation of intangible assets (note 10)	<b>4.4</b>	3.4	-	-
Changes in operating assets and liabilities:				
– amounts receivable from customers	<b>(40.9)</b>	(63.5)	-	-
– trade and other receivables	<b>(9.1)</b>	7.2	<b>(38.7)</b>	(84.1)
– trade and other payables	<b>(7.6)</b>	19.8	<b>50.9</b>	52.6
– retirement benefit asset	<b>(0.4)</b>	(0.1)	<b>(0.1)</b>	-
– derivative financial instruments	<b>3.8</b>	(0.3)	<b>3.7</b>	0.2
<b>Cash generated from/(used in) operations</b>	<b>65.7</b>	45.1	<b>15.1</b>	(35.1)

## 28. Commitments

Commitments to make operating lease payments are as follows:

Group	2008 £m	2007 £m
In less than one year	<b>9.9</b>	5.4
In more than one year but not later than five years	<b>19.9</b>	9.1
In more than five years	<b>8.1</b>	10.6
	<b>37.9</b>	25.1

Other commitments are as follows:

Group	2008 £m	2007 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	<b>2.2</b>	2.0

The Company has no commitments as at 31 December 2008 (2007: £nil).

## 29. Contingent liabilities

The Company has a contingent liability for guarantees given in respect of the borrowings of certain other Group companies to a maximum of £437.7m (2007: £367.5m). At 31 December 2008 the fixed and floating rate borrowings under these facilities amounted to £380.7m (2007: £323.7m). The directors do not expect any loss to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2008 was £nil (2007: £nil).

## Notes to the financial statements continued

### 30. Related party transactions

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

Company	2008			2007		
	Recharge of costs £m	Interest charge/(credit) £m	Outstanding balance £m	Recharge of costs £m	Interest charge £m	Outstanding balance £m
Central Europe	1.5	2.2	28.9	–	1.3	31.4
Mexico	0.4	0.1	0.3	–	0.1	–
Romania	0.3	1.8	4.7	–	0.3	11.7
Other UK companies	1.1	(2.8)	(10.9)	0.3	0.1	(7.5)
	<b>3.3</b>	<b>1.3</b>	<b>23.0</b>	<b>0.3</b>	<b>1.8</b>	<b>35.6</b>

During 2007, but prior to the demerger, the Group received £0.5m of interest from Provident Financial plc and paid £1.6m in respect of a management services agreement.

### 31. Pro forma income statement (unaudited)

On 16 July 2007 the international home credit businesses of Provident Financial plc (the international businesses) were demerged, effected by a dividend in specie. IPF plc acquired the international businesses by issuing one IPF plc share to the shareholders of Provident Financial plc for each Provident Financial plc share held by them. On the same day the shares of IPF plc were admitted to trading on the main market of the London Stock Exchange.

An unaudited pro forma income statement and earnings per share for the year ended 31 December 2007 are presented below in order to present a consolidated position as if the Group had existed as a stand alone entity throughout the periods shown.

A reconciliation of the statutory result for the years ended 31 December 2007 to the pro forma result is presented below. The pro forma adjustments do not form part of the Group's financial statements.

Group	Statutory £m	Exceptional demerger costs £m	Pro forma adjustments £m	Pro forma £m
<b>31 December 2007</b>				
Revenue	409.8	–	–	409.8
Impairment	(83.2)	–	–	(83.2)
Revenue less impairment	326.6	–	–	326.6
Finance costs	(22.3)	–	3.1	(19.2)
Other operating costs	(81.6)	–	–	(81.6)
Administrative expenses	(175.7)	2.8	(2.8)	(175.7)
Total costs	(279.6)	2.8	0.3	(276.5)
<b>Profit before taxation</b>	<b>47.0</b>	<b>2.8</b>	<b>0.3</b>	<b>50.1</b>
Analysed as:				
Central Europe	79.3	–	1.3	80.6
UK-central costs	(11.6)	–	(0.9)	(12.5)
Established businesses	67.7	–	0.4	68.1
Mexico	(13.2)	–	(0.1)	(13.3)
Romania	(4.2)	–	–	(4.2)
Russia	(0.5)	–	–	(0.5)
Exceptional demerger costs	(2.8)	2.8	–	–
Profit before taxation	47.0	2.8	0.3	50.1
Taxation	(14.5)	(0.4)	(0.1)	(15.0)
<b>Profit after taxation</b>	<b>32.5</b>	<b>2.4</b>	<b>0.2</b>	<b>35.1</b>

### 31. Pro forma income statement (unaudited) continued

The exceptional demerger costs can be analysed as follows:

Group	2007 £m
IT separation costs	2.3
Defined benefit pension credit	(3.5)
Accelerated share-based payment charge	2.4
Other	1.6
	2.8
Tax credit	(0.4)
	2.4

The pro forma adjustments can be analysed as follows:

Group	Notes	2007 £m
Additional interest charge due to higher interest rates	a	(0.8)
Interest credit on capital contribution	b	1.9
Corporate office costs	c	(2.8)
Group interest payable	d	2.0
		0.3
Tax credit		(0.1)
		0.2

The pro forma adjustments can be explained as follows:

- An adjustment has been included to increase finance costs to reflect the fact that the Group is subject to higher interest rates now that borrowings are no longer guaranteed by Provident Financial plc.
- As part of the demerger, the Group received a capital contribution of £70.0m from Provident Financial plc (see note 26). This pro forma adjustment reflects the interest that would have been earned on this capital contribution had it been received prior to the start of 2007.
- An adjustment in respect of additional corporate office costs is included to reflect that as a stand alone entity with its own corporate office the Group incurs additional costs compared with when it was a division of Provident Financial plc.
- While the Group was part of the Provident Financial plc group it was subject to certain interest charges that would not have been incurred if it was a stand alone entity. These interest charges (which were not included in the reported profit for the international division in the Provident Financial plc segmental analysis) have therefore been reversed.

### 32. Pro forma earnings per share ('EPS') (unaudited)

A reconciliation of the statutory EPS to the pro forma EPS for the year ended 31 December 2007 is presented below:

Group	2007 pence
Basic EPS	12.64
Exceptional demerger costs, net of taxation	0.93
Pro forma adjustments, net of taxation	0.08
<b>Pro forma EPS</b>	<b>13.65</b>

The pro forma EPS is attributable to the following defined business units:

Group	2007 pence
Central Europe	21.95
UK-central costs	(3.40)
Established businesses	18.55
Mexico	(3.62)
Romania	(1.14)
Russia	(0.14)
<b>Pro forma EPS</b>	<b>13.65</b>