International Personal Finance

The human face of finance

International Personal Finance plc

Annual Report and Financial Statements 2007

Contents

International Personal Finance plc
Company number: 6018973

Executive Chairman and Chief Operating Officer's review

"Welcome to this review of International Personal Finance's first year as a public company. We are delighted to report that in the last 12 months we have exceeded our financial targets and made real progress towards our strategic goals."

Christopher Rodrigues
Executive Chairman

John Harnett
Chief Operating Officer

Executive Chairman and Chief Operating Officer's review continued

Group highlights

Pro forma profit before tax increased by

+25.6% to £50.1m*

Pro forma earnings per share increased by

+29.5% to 13.65p*

Customer numbers increased by

+8.8% to 1.94m

Receivables up by

+18.8%† to £443.2m

Revenue increased by

+8.5%† to £409.8m

Impairment reduced by

-20.0%† to £83.2m

* Stated on a pro forma basis. The statutory profit before tax is £47.0m and statutory earnings per share is 12.64p.

† At constant exchange rates.

2007 was an important year in the short history of International Personal Finance ('IPF'). After 10 years as part of Provident Financial plc, the international businesses were demerged on 16 July 2007 and IPF shares began trading on the London Stock Exchange.

As a standalone business, IPF is now focused exclusively on the considerable opportunities that exist serving consumer borrowers in emerging markets. The main building blocks for our future development are in place and we are confident about the prospects for the business despite the turbulent economic conditions in which all businesses are now operating.

2007 results

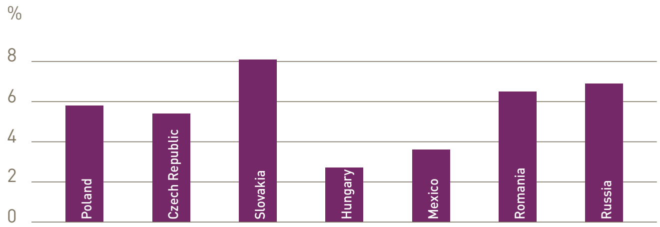
IPF produced encouraging results for the year ended 31 December 2007 with pro forma profit before tax increasing by 25.6% to £50.1 million. Statutory profit before tax increased by 35.8% to £47.0 million.

There were two key drivers of this performance: strong volume growth and much improved credit quality. Customer numbers increased steadily in the year and the investment made in implementing improved credit management processes proved successful with the impairment charge reducing substantially.

In our established Central European markets, all countries performed well and pro forma profit increased by 25.7% to £80.6 million. We also made good progress in our developing markets with continued improvements in our Mexican operations and the successful expansion of our Romanian business from pilot to developing market status.

The year ended on a positive note when, in December, we acquired a small Russian bank which will enable us to enter the Russian market with a Moscow pilot operation in 2008.

A portfolio of growth markets
GDP 2006-2009 compound annual growth rate



Source: Datastream, Reuters, Haver Analytics and Citibank

2007 dividend
At demerger we said that, in the absence of unforeseen circumstances, we intended to declare aggregate dividends in respect of 2007 of 4.75 pence per share. An interim dividend of 1.90 pence per share was paid on 19 October 2007 and, subject to shareholder approval, a final dividend of 2.85 pence per share will be paid on 23 May 2008.

Medium-term strategy
Our strategy for the business has four key components.

The first is to continue to build the profit from our established Central European markets of Poland, the Czech Republic, Slovakia and Hungary. Our immediate target is to achieve pre-tax profit of at least £95 million by 2010.

The second component is to realise the sizeable profit potential of the two markets currently under development – Mexico and Romania. We expect Mexico to be in profit for 2009 and Romania for 2010.

The third component is to take our successful business model into new emerging markets. Our recent acquisition of a small bank in Russia is evidence of this strategy moving forward and we are near to completing our pre-pilot research on India and the Ukraine. Either looks to be a good candidate for a pilot entry towards the end of 2008 or in early 2009.

Finally, we will seek to manage our capital and balance sheet when the current turmoil in credit markets has passed. Meanwhile, we are glad our growing lending book is funded through to 2010 and we have a high equity to receivables ratio. Both factors stand us in good stead in the current market.

Employees
This has been a year of exceptional change. Implementing new operating support systems, further market expansion, performance enhancement in Mexico and continued development work in new markets all required a special effort from employees. Many of them also handled the additional workload of the demerger. Our success in 2007 is down to their hard work and commitment for which we are especially grateful.

Christopher Rodrigues
Executive Chairman

John Harnett
Chief Operating Officer

Key facts

Our vision for International Personal Finance

We aim to be a leading provider of simple financial products and services to people of modest means. We will do this by building close, long-term relationships with our customers, our people, our business partners and the communities in which we work through trustworthy and responsible behaviour.

Key statistics

as at 31 December 2007

Market	Established	Population	No. of customers	No. of employees
Group	2007		1.94 million	5,600*
Poland	1997	38 million	871,000	2,400
Czech Republic	1997	10 million	271,000	600
Slovakia	2001	5 million	131,000	350
Hungary	2001	10 million	319,000	800
Mexico	2003	109 million	312,000	1,200
Romania	2006	22 million	33,000	150

* Includes 100 UK-based employees

Our values

We're respectful
Treating others as we would like to be treated.

We're responsible
Taking all due care in our actions and decisions.

We're straightforward
Being open and transparent in everything we do.

No. of agents	Net receivables	Achievements during the year
28,000	£443.2 million	• Strong growth in customer numbers and receivables • Excellent credit quality • Pro forma pre-tax profit up by 25.6% to £50.1 million
13,000	£224.6 million	• Customer numbers up 2.0% • Average receivables up 7.3%† • Revenue less impairment up 16.2%†
3,000	£79.9 million	• Customer numbers up 6.7% • Average receivables up 10.5%† • Revenue less impairment up 4.5%†
2,000	£25.6 million	• Customer numbers stable • Average receivables up 5.0%† • Revenue less impairment up 30.2%†
4,000	£84.9 million	• Customer numbers up 12.3% • Average receivables up 12.4%† • Revenue less impairment up 23.1%†
5,000	£22.9 million	• Customer numbers up 23.8% • Average receivables up 61.0%† • Revenue less impairment up 59.4%†
1,000	£5.3 million	• Customer numbers up by 27,000 to 33,000 • Average receivables up from £0.3 million to £3.1 million • Revenue less impairment up from £0.3 million to £3.4 million

† At constant exchange rates

Our management team

Strong international management

A new generation of leaders is now adding to the UK expatriates who founded the business in the 1990s. It's a strong team with significant experience of running home credit businesses in emerging markets. It's also international with considerable skills in operating across national boundaries. Behind the top team is a depth of management to ensure strong leadership in years to come, both in existing markets and in new markets waiting to be entered. It's also a team with a common vision for the business that sees strong growth and rapid expansion into new geographies.

1. Balázs Pap
Country manager – Poland
Balázs joined the international team in Hungary in April 2001 as operations manager. He progressed to operations director in 2003, and was appointed as country manager of Hungary in 2006. In February 2008 he became country manager of Poland. Before joining the team he held positions at GE and Citibank.

2. David Parkinson
Country manager – Czech Republic and Slovakia
David joined the UK home credit division of Provident Financial plc in 1986. He held various field-based and head office roles, including head of communications, head of training and head of agent support before joining the international team in 2003 as field development manager. David was appointed as country manager for the Czech Republic and Slovakia in January 2008.

3. Botond Szirmak
Country manager – Hungary
Botond joined the international team in Hungary in February 2002 as a development manager, moving to area manager, regional operations manager and divisional operations manager. He was appointed operations director in 2006 and in February 2008 he became country manager for Hungary.

4. Kenny McPartland
Country manager – Mexico
Kenny joined the UK home credit division of Provident Financial plc in 1984. He held various operational roles before joining the international team in 1998 as field development manager in the Czech Republic. He was appointed country manager for Slovakia in 2001 and moved to be country manager for the Czech Republic in 2003. He took charge of both countries in January 2006. In January 2008 he was appointed country manager for Mexico.

5. Stephen Rice
Country manager – Romania
Stephen joined the UK home credit division of Provident Financial plc 30 years ago, progressing through various field management roles. In 2001 he joined the international team in Poland, progressing to the position of development director. In 2004 he became managing director of the business in Slovakia. In 2006 he was appointed as country manager in Romania.

6. Chris Wheeler
Country manager – Russia
Chris joined the UK home credit division of Provident Financial plc in September 1985 and held management positions at a number of levels in the UK. He transferred to the international team in June 2001, working in operations in the Czech Republic, Slovakia, and Poland. In 2005 he moved to Mexico to lead the expansion into the Guadalajara region and in January 2008 was appointed country manager for Russia.

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7. Fred Forfar
New markets
Fred joined the UK home credit division of Provident Financial plc in 1974. Prior to joining the international team as development director in 2003, Fred held various roles including HR director, marketing and commercial director and in his role as deputy managing director was responsible for the UK and Irish operations. He is responsible for identifying, researching and setting up new country opportunities and for managing the portfolio of new markets through their initial pilot period until they become self-sufficient.

8. Catherine Gardner
Human resources
Catherine joined the international team in 2000 as director of human resources having previously worked for a variety of companies, including PricewaterhouseCoopers, ASDA and House of Fraser Stores. She is responsible for the development and implementation of an effective HR strategy for the business.

9. Nick Illingworth
Operations
Nick joined Provident Financial plc in 1986 in an accounting capacity then moved to the insurance division in 1991 as operations director before joining the international team in 2001. He is responsible for improving the effectiveness and efficiency of field operations in all markets.

10. John Mitra
Marketing and communications
John joined the international team in 2004 as marketing and communications director having previously worked for global companies including Rothmans, Sheaffer and Bic International. He is responsible for developing the marketing and communications strategy.

11. John Saville
Information technology
John joined the international team in 2007 as director of information technology (IT), having previously worked for companies including HBOS, Telewest, Vodafone, Cable & Wireless and Lehman Brothers. John is responsible for all aspects of IT across the Group.

12. John Williams
Credit and risk
John joined the international team in 2005 as director of credit having previously worked for companies including GUS plc, The Associates, and Marks & Spencer. His role includes managing all aspects of credit risk across all markets.

Business review

Key performance indicators ('KPIs')

Senior management review the performance of every business unit on a monthly basis. This process is supported by the financial results for the period, compared with budget and prior year – these are typically prepared within five working days of the period end. It is also supported by a detailed KPI pack which measures trends and performance compared to expectation against more than 60 measures. The key operational measures are embedded within the branch IT infrastructure that supports the self-employed agents and our field managers.

KPIs

Financial
Revenue
Impairment
Impairment as percentage of revenue
Average receivables
Credit issued

Non financial
Customer numbers
Agent numbers
Employee numbers
Employees inducted on development programmes
Employee and agent engagement

Central Europe

Pro forma profit before tax up

25.7% to £80.6m

Mexico

Good progress in 2007

– a sound platform for profit in 2009

Romania

National roll-out progressing well

– on track for profit for 2010

New markets

Russian pilot to commence

– in the first half of 2008

Research on India and the Ukraine

– well advanced

Established markets

Central European customer numbers increased to

1.59m

Increase in Central European customer numbers

4.5%

As a part of Provident Financial plc we began operating in Poland in 1997. Since then we have successfully built large-scale operations in Poland, the Czech Republic, Slovakia and Hungary. As these now have national coverage we characterise them as our 'established' markets.

Percentage change figures for all performance measures other than the profit or loss before taxation and earnings per share are quoted after restating prior year figures at the average exchange rate (CER) for 2007 in order to present the underlying performance variances.

Central Europe

Central Europe comprises our operations in Poland, the Czech Republic, Slovakia and Hungary.

	2007 £m	2006 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	**1,592**	1,523	69	4.5	4.5
Credit issued	**553.8**	474.9	78.9	16.6	11.3
Average net receivables	**336.7**	292.9	43.8	15.0	8.7
Revenue	**367.1**	338.6	28.5	8.4	4.0
Impairment	**(64.3)**	(90.6)	26.3	29.0	30.4
Revenue less impairment	**302.8**	248.0	54.8	22.1	16.2
Agent commission	**(51.7)**	(39.7)	(12.0)	(30.2)	(24.9)
Finance costs	**(18.1)**	(19.8)	1.7	8.6	13.0
Other operating costs	**(152.4)**	(124.4)	(28.0)	(22.5)	(17.1)
Profit before taxation	**80.6**	64.1	16.5	25.7	

Increase in Central European profit to £80.6m
25.7%

Growth in credit issued in Central Europe
11.3%

Receivables increased by 17.1% in Central Europe
£415m

Reduction in impairment in Central Europe
30.4%

The Central European businesses performed well in 2007 with profit before tax increasing by £16.5 million (25.7%), to £80.6 million. During the second half of 2006 our focus was firmly on improving credit quality. In 2007 as the year progressed and we saw reduced levels of impairment, we shifted our emphasis to controlled customer growth in all markets except Slovakia. This was successful and we generated improved customer growth whilst continuing to see reduced levels of impairment. Customer numbers grew by 50,000 in the second half and finished the year at 1,592,000, an increase on 2006 of 4.5%.

This growth, together with the targeted issue of larger loans to better quality customers, led to an increase in credit issued of 11.3% compared with 2006 and an increase in average customer receivables of 8.7%.

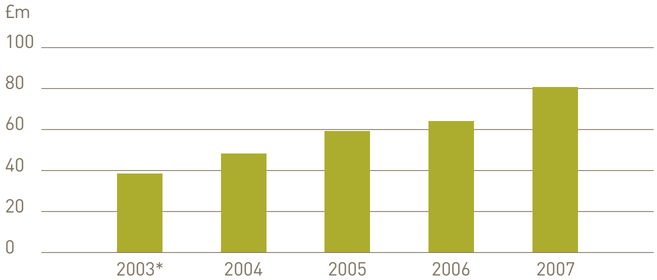
Revenue grew more slowly, up by 4.0% to £367.1 million (2006: £338.6 million), reflecting a higher proportion of longer-term lending which carries a lower effective interest rate.

In conjunction with the good growth in credit issued and customer receivables, we have seen a substantial improvement in credit quality. This has resulted in the impairment charge reducing by £26.3 million (30.4%) to £64.3 million. This includes the release in the first half of £6.0 million of impairment provisions no longer required in Poland because of the improvement in credit quality. A similar release of provisions was made in 2006 of £3.8 million, primarily in the Czech Republic. The underlying impairment charge, before provision releases, as a percentage of revenue fell to 19.2%, compared with 19.9% at June 2007 and 27.9% at the end of 2006.

Revenue less impairment has increased by £54.8 million (16.2%) to £302.8 million.

Total costs, comprising agent commission, finance costs and other operating costs, have increased by 15.5% to £222.2 million. This includes £8.0 million (2006: £0.5 million) of additional costs in Hungary resulting from the employment of agents and other administrative changes made in November 2006 to comply with the requirements of the regulator, the PSZAF. It also reflects the additional costs of around £5.0 million of operating enhanced credit management processes throughout Central Europe, which has supported the reduction in impairment during the year. As much of the cost of improved credit management systems and the additional PSZAF costs have now been absorbed, we expect the rate of growth in costs to be lower in 2008 and for the cost-income ratio to improve.

Five years of profit growth from established markets



* 2003 based on UK GAAP

Poland

	2007 £m	2006 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	**871**	854	17	2.0	2.0
Credit issued	**270.9**	235.6	35.3	15.0	10.8
Average net receivables	**181.0**	159.2	21.8	13.7	7.3
Revenue	**183.1**	185.0	(1.9)	(1.0)	(4.3)
Impairment	**(26.4)**	(56.0)	29.6	52.9	53.3
Revenue less impairment	**156.7**	129.0	27.7	21.5	16.2

Following a strong performance in the first half, Poland made further progress in the second half with continued good credit quality, coupled with stronger growth in customer numbers, credit issued and receivables. Customers have grown from 854,000 to 871,000 at 31 December 2007 with much stronger growth in the second half of the year. We have focused on increasing loan sizes to lower risk customers and this increased credit issued by 10.8%, well ahead of customer growth. Average customer receivables also increased strongly, by 7.3%, but a change in product mix towards longer-term products with lower

Established markets continued

Poland
Revenue less impairment up
16.2%
to £156.7m

Czech Republic
Revenue less impairment up
4.5%
to £55.3m

Slovakia
Revenue less impairment up
30.2%
to £21.1m

Hungary
Revenue less impairment up
23.1%
to £69.7m

effective interest rates led to a reduction in revenue of 4.3%. This principally relates to the longer-term 104-week product, which accounted for 17.3% of credit issued in 2007 and for 26.9% of average customer receivables. Only customers with the lowest credit risk profile are offered the longer-term loan. Their credit quality is very good with the result that, although the effective interest rate is lower, the risk adjusted yield (revenue less impairment) is higher.

Impairment reduced significantly from £56.0 million to £26.4 million, a reduction of 53.3%. This reflects the full year effect of the substantial improvements in credit control techniques implemented in 2006. Performance in the period has also benefited from the extension of the centralised collections process, from approximately 30% of the Polish operations at the end of 2006 to the whole country from the first quarter of 2007. As previously noted, this improved credit performance enabled a release of prior year impairment provisions of £6.0 million in the first half. Underlying impairment as a percentage of revenue, before provision releases, remained good at 17.7% compared with 17.4% at 30 June 2007, and 30.3% at the end of 2006.

Revenue net of impairment increased strongly, up by £27.7 million (16.2%) to £156.7 million.

We expect further good progress in Poland in 2008, with continued growth in customer numbers and credit issued accompanied by a small increase in the level of impairment reflecting this stronger growth.

Czech Republic

	2007 £m	2006 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	**271**	254	17	6.7	6.7
Credit issued	**111.7**	97.4	14.3	14.7	10.7
Average net receivables	**64.5**	56.8	7.7	13.6	10.5
Revenue	**69.4**	60.7	8.7	14.3	11.0
Impairment	**(14.1)**	(9.6)	(4.5)	(46.9)	(46.9)
Revenue less impairment	**55.3**	51.1	4.2	8.2	4.5

The Czech Republic also delivered a strong performance in 2007. Customer numbers grew by 6.7% to 271,000 at the end of December 2007. As the incomes of our Czech customers have risen we have been able to increase our loan sizes and this, combined with good customer growth, has resulted in an increase in credit issued of 10.7% to £111.7 million. Average net receivables increased correspondingly, up by 10.5% and revenue also rose strongly, up by 11.0% to £69.4 million.

Credit quality remained very good with underlying impairment as a percentage of revenue at 20.3% for the year to 31 December 2007 (2006: 21.6%, before provision releases of £3.5 million).

Revenue net of impairment increased by 4.5% to £55.3 million.

We expect continued good progress in the Czech Republic in 2008 with a slight increase in impairment reflecting stronger growth in the business.

Slovakia

	2007 £m	2006 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	**131**	131	–	–	–
Credit issued	**41.2**	39.2	2.0	5.1	(5.1)
Average net receivables	**23.1**	19.9	3.2	16.1	5.0
Revenue	**27.5**	22.3	5.2	23.3	11.3
Impairment	**(6.4)**	(7.8)	1.4	17.9	24.7
Revenue less impairment	**21.1**	14.5	6.6	45.5	30.2

Our main objective for the Slovakian business during 2007 was to improve credit quality after the implementation of improved credit management systems at the end of 2006. This objective has been achieved, with impairment for the year ended 31 December 2007 falling by £1.4 million (24.7%) to £6.4 million. Impairment now represents 23.3% of revenue, compared with 35.0% at the end of 2006.

As a result of our tight stance on credit, customer numbers remained steady at 131,000, which is the same level as that reported at December 2006 and June 2007 and credit issued reduced by 5.1% to £41.2 million. The quality and profitability of the customer base has, however, improved substantially and we have been able to extend more credit to better quality customers such that average net receivables increased by 5.0% to £23.1 million. Revenue increased by 11.3% to £27.5 million. Revenue net of impairment increased by £6.6 million (30.2%) to £21.1 million.

We expect to return to customer growth in 2008 and to maintain good credit quality.

Poland
Forecast GDP 2006-2009 compound annual growth rate
5.8%

Czech Republic
Forecast GDP 2006-2009 compound annual growth rate
5.4%

Slovakia
Forecast GDP 2006-2009 compound annual growth rate
8.1%

Hungary
Forecast GDP 2006-2009 compound annual growth rate
2.7%

Source: Datastream, Reuters, Haver Analytics and Citibank

Hungary

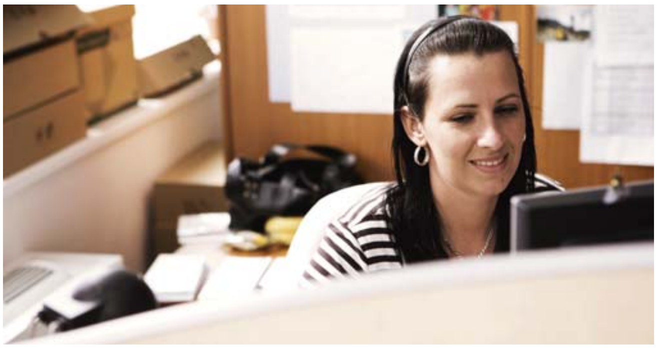
	2007 £m	2006 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	**319**	284	35	12.3	12.3
Credit issued	**130.0**	102.7	27.3	26.6	19.7
Average net receivables	**68.1**	57.0	11.1	19.5	12.4
Revenue	**87.1**	70.6	16.5	23.4	17.1
Impairment	**(17.4)**	(17.2)	(0.2)	(1.2)	2.2
Revenue less impairment	**69.7**	53.4	16.3	30.5	23.1

The Hungarian business performed well in 2007 having recovered rapidly from the suspension of lending imposed by the local regulator, the PSZAF, in the final quarter of 2006. Customer numbers increased by 35,000 (12.3%) to 319,000 during the year. Credit issued increased by 19.7% to £130.0 million, and over the same period average net receivables rose by 12.4% to £68.1 million. Revenue increased by 17.1% to £87.1 million.

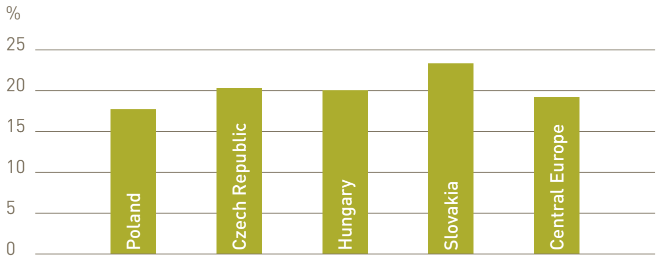
Credit quality remained good and impairment decreased by 2.2% to £17.4 million. Impairment as a percentage of revenue reduced to 20.0% (2006: 24.4%).

Revenue net of impairment increased by £16.3 million (23.1%) to £69.7 million. However, this was partly offset by an increase in operating costs of £8.0 million as a result of the increased costs of employing the agency force and new administrative processes to meet the requirements of the PSZAF.

We expect continued good progress in Hungary in 2008.



2007 underlying impairment as percentage of revenue



Developing markets

Operations began in Mexico in 2003 and in Romania in 2006. As we are still building these businesses towards full national branch coverage we characterise them as 'developing markets'.

Mexico

In Mexico, we currently operate from two regional centres: Puebla and Guadalajara. At the half year we noted that our main objectives for 2007 were to continue to improve performance and, in particular, credit quality in the Puebla region whilst maintaining the good performance of the Guadalajara region. We have made good progress towards both of these objectives in the year.

	2007 £m	2006 £m	Change £m	Change %	Change at CER %
Customer numbers (000s)	**312**	252	60	23.8	23.8
Credit issued	**58.1**	48.1	10.0	20.8	30.9
Average net receivables	**22.3**	14.5	7.8	53.8	61.0
Revenue	**38.8**	26.4	12.4	47.0	59.0
Impairment	**(18.4)**	(12.5)	(5.9)	(47.2)	(58.6)
Revenue less impairment	**20.4**	13.9	6.5	46.8	59.4
Agent commission	**(4.6)**	(2.6)	(2.0)	(76.9)	(91.7)
Finance costs	**(3.0)**	(2.6)	(0.4)	(15.4)	(25.0)
Other operating costs	**(26.1)**	(18.6)	(7.5)	(40.3)	(52.6)
Loss before taxation	**(13.3)**	(9.9)	(3.4)	(34.3)	

Mexico:

Customer numbers up by
+23.8%
to 312,000

Average net receivables up by
+61.0%
to £22.3m

Revenue less impairment up by
+59.4%
to £20.4m

Prospects Mexico
On track for profit for 2009

Enhanced credit management systems were introduced to both regions in the second half of the year, in Puebla in July and in Guadalajara in August. These systems comprise application scoring for new customers and behavioural scoring for repeat loans.

In Puebla, customer numbers reduced in the second half by 25,000 to 224,000 as a result of the tightening of credit controls, although there was growth for the year as a whole (2006: 211,000). Impairment as a percentage of revenue for 2007 was 51.3%, which is similar to that reported at the half year. However, substantial improvements in credit quality have been seen for credit issued in all months since September 2007. As evidence of this, we forecast the gross cash loss (i.e. the proportion of contractual loan repayments not collected and ultimately written off) to have fallen from over 15% on loans issued in the first half, to 11.7% on loans issued in the fourth quarter. Our lending in Mexico is over very short terms, typically 30 weeks, and so the benefit of improved lending in the final quarter of 2007 will quickly be reflected in an improved impairment charge from the first half of 2008.

At the half year we identified seven branches in the Puebla region that were heavily loss making and we said we would apply special measures to improve these branches and then evaluate their viability in February 2008. Six branches have shown substantial improvement, with gross cash loss improving from over 20% in the first half to 11.7% in the fourth quarter, and are well on the way to making a positive contribution. We have decided to close one branch that has not shown sufficient improvement and will collect outstanding receivables from neighbouring branches.

Guadalajara continues to perform satisfactorily and towards the end of 2007 we opened two new branches in the city of Guadalajara. The customer base has grown strongly, up by 20,000 or 29.4% from 68,000 at June 2007 to 88,000 by 31 December 2007 (2006: 41,000). As expected, the increased intake of new customers, who carry a higher risk profile, has contributed to a slight increase in impairment, which is now running at 34.4% of revenue (2006: 28.6%). However, the new enhanced credit management systems are now benefiting the region and are expected to reduce impairment as a percentage of revenue in 2008.

As a result of these tightened credit controls, overall customer numbers in Mexico reduced by 5,000 in the second half and finished the year at 312,000. This still represents strong growth of 60,000 (23.8%) on December 2006. Credit issued increased by 30.9% to £58.1 million and average net receivables were £22.3 million, which represents growth of 61.0% on 2006. As a result, revenue for 2007 increased by 59.0% to £38.8 million.

Impairment increased in line with revenue up by 58.6% to £18.4 million. At 31 December 2007 impairment as a percentage of revenue was 47.4%, which is similar to the level of 47.3% reported at the end of 2006. As noted above, we expect the improved quality of lending from September 2007 onwards to result in a reduced level of impairment in 2008.

Revenue net of impairment increased by £6.5 million (59.4%) to £20.4 million. Other operating costs increased by £7.5 million (52.6%) reflecting the increased size of the business compared with 2006 and the cost of the credit management systems referred to above. Start-up losses for the year were £13.3 million (2006: £9.9 million).

Overall, we have made good progress during 2007. We have strengthened the management team, retrained local employees and agents and introduced improved credit controls, which are now leading to much better credit quality. We believe that this gives us a sound platform on which to resume growth and build a profitable business.

In 2008 we expect significant improvements in impairment coupled with controlled growth in customer numbers and credit issued per customer. As a result we expect reduced losses in 2008.

We continue to target profit from both the Puebla and Guadalajara regions and for Mexico overall in 2009.

Developing markets continued

Romania:

Customer numbers up by
+27,000
to 33,000

Average net receivables up by
+£2.8m
to £3.1m

Revenue less impairment up by
+£3.1m
to £3.4m

Prospects Romania
On track for profit for 2010

Romania

Romania continues to perform well and in line with our expectations. During the second half of the year we opened two more branches taking our total number of branches to seven. This, along with growth in the more established branches, resulted in customer numbers almost doubling in the second half and finishing the year at 33,000 (June 2007: 17,000; December 2006: 6,000).

	2007 £m	2006 £m	Change £m
Customer numbers (000s)	33	6	27
Credit issued	9.2	1.3	7.9
Average net receivables	3.1	0.3	2.8
Revenue	3.9	0.3	3.6
Impairment	(0.5)	–	(0.5)
Revenue less impairment	3.4	0.3	3.1
Agent commission	(0.4)	–	(0.4)
Finance costs	(0.5)	(0.2)	(0.3)
Other operating costs	(6.7)	(2.5)	(4.2)
Loss before taxation	(4.2)	(2.4)	(1.8)

Impairment is running at 12.8% of revenue, which is in line with our expectation for the early stages of a developing market, and underlying credit quality remains good. The loss for the year ended 31 December 2007 was £4.2 million, which was in line with expectations.

During 2008 we expect start-up losses to reach a peak as we extend our branch infrastructure with the opening of around 10 new locations. We continue to target a profit from this market in 2010.

New markets

There is significant opportunity for home credit in new, emerging markets and we pride ourselves on our disciplined approach to market selection. A country has to be safe, economically and politically stable, have a target customer base sufficiently large and with suitable per capita incomes, exhibit strong and growing demand for consumer credit and be able to be funded in local currency. These criteria form the basis of an extensive due diligence process that can take up to two years to complete.

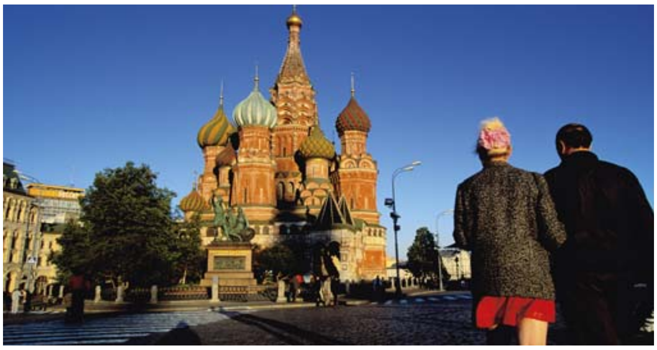
Russia

In December 2007, following a rigorous search and extensive due diligence, we acquired a small Russian bank for a consideration of £2.8 million in order to provide us with a licence to operate. We are now completing the regulatory filings and procedures that will allow us to commence lending in the Moscow region in the first half of this year. We intend to pilot both in Moscow and one further major Russian city for about 18 months to evaluate the market and build our local team. If this is successful, we will begin a wider geographic roll-out in mid-2010. The cost in 2007 of preparing for entry into the Russian market was £0.5 million (2006: £nil).

The business model will continue to revolve around weekly home collected credit using self-employed agents to make collections in customers' homes; however, we are introducing a new delivery mechanism in the form of a pre-loaded Visa debit card. The card will be given to approved customers with an agreed loan amount that can be withdrawn in cash through an ATM.

India and the Ukraine

Our research programme is progressing well. Following the commencement of the pilot in Russia noted above, our next medium-term targets remain India and the Ukraine.



Russia
A population of 142.6 million and an expected compound annual growth rate of GDP for 2006-2009 of 6.9%.

India
A population of 1,132 million and an expected compound annual growth rate of GDP for 2006-2009 of 8.9%.

Ukraine
A population of 46.2 million and an expected compound annual growth rate of GDP for 2006-2009 of 6.6%.

Our business

Five reasons…
customers like our home credit service because…

We're fast
We deliver rapidly – typically within 48 hours of our first customer contact.

We're accessible
Our loans are delivered in the home by our agents, the majority of whom are female. This 'loan to home' approach is valued by our customers and facilitates gathering additional information before a loan is granted.

We're inclusive
Our customers are typically not well served by banks. They often have no credit history and prefer to use cash. Our simple and transparent approach appeals particularly well to this customer group.

We're personal
An agent is key to the customer relationship – meeting the customer each week in their home to collect repayments. They make further loans as appropriate and as their knowledge of the customer's payment history and credit requirements develops.

We're flexible
Our approach to credit is distinctive. On our home collected product no interest is added for late payment, there are no hidden charges and no default charges because we understand that it can be difficult to manage the household budget when the unexpected happens.

International Personal Finance ('IPF') is a business built around people. 5,600 employees, 28,000 agents and 1.94 million customers. At its core is our ability to meet each of our customers, in their own home, every week. The strength of the relationship that develops as a result, enables us to ensure we provide a level of personal and flexible service that is difficult to match. It is this 'human face of finance' that sets IPF apart.

Built upon a robust business model calling on 1.94 million customers every week, there is a unique relationship with our customers at the core of what we do.

In 1997 the international business of Provident Financial plc was created. Since the signing of the first overseas customer in Poland, businesses have been established in six emerging markets. The Group operates in Poland, the Czech Republic, Hungary, Slovakia, Mexico, Romania and has acquired a small bank in Russia to facilitate a pilot. The agent force now stands at around 28,000 and customers at 1.94 million.

Emerging markets such as those in Central Europe are characterised by rapid economic development and a corresponding rise in demand for consumer credit. The provision of credit, however, still lags behind. For most ordinary people, credit traditionally meant getting by with the help of family and friends.

Emerging market customers tend to rely more on cash than their counterparts in developed markets. Even among those with bank accounts, it's not unusual for people to withdraw their money at the start of the month and make it last to the next payday. The home credit model of cash loans therefore fits well with the way consumers tend to budget.

What we do

Our product, home credit, is a simple concept based on regular, personal contact with customers. We call it 'the human face of finance'.

Home credit consists of small-sum, unsecured loans delivered to the customer's door by an agent who then calls every week to collect the repayments. An important feature of the home collection product is that there are no extra charges for late or missed payments.

Fast, accessible, inclusive, personal and flexible, the service is popular with people on modest incomes.

Our business continued

How we do it
The heart of the service is the personal relationship between the agent and the customer. By virtue of the weekly visit, the agent gets to know the customer's financial circumstances. Customers enjoy a friendly, face-to-face service while the business benefits from the agent's personal judgement of their ability to repay.

Who we do it for
We typically serve a segment of customers that earns an average or below-average income and is underserved by mainstream banks. Far from having a poor credit history, our average customer has had little opportunity to use credit and has therefore not been able to build a formal credit record.

The majority of our customers are female. Most are employed or run small businesses.

Why we're successful
Our success so far has rested on two particular skills.

The first is the ability to deliver a service that meets our customers' needs. Compared with most forms of consumer lending, home credit is a people-focused business. Our success depends on maintaining good relationships with our customers. We aim to treat them responsibly, respectfully and in a straightforward manner, in order to succeed in our business. This in turn requires a high-quality agent force able to communicate the values of the business.

For the customers for whom it's designed, home credit has clear advantages over more conventional forms of credit.

It's personal. The agent – often a woman from the local community – is key to the customer relationship. Because they're aware of their customers' circumstances, agents can make sure they lend responsibly and can demonstrate empathy. The friendly, face-to-face nature of home credit is one of its great attractions.

The service is also fast: we aim to deliver cash within 48 hours of the customer's first contact. It's convenient in that repayments can be made without having to leave home. And it's transparent. There are no add-on charges for late or missed payments, so the total amount owed can never go up. Customers know at the start exactly how much they'll have to repay – a welcome feature if they're on a tight budget.

At 68%, our customer satisfaction ratings are unusually high in the financial services industry and an indication of how much customers appreciate 'the human face of finance'. In 2007 more than 75% of eligible customers took out a subsequent loan.

Inclusion
Home credit allows customers access to financial products that mainstream financial services do not offer.

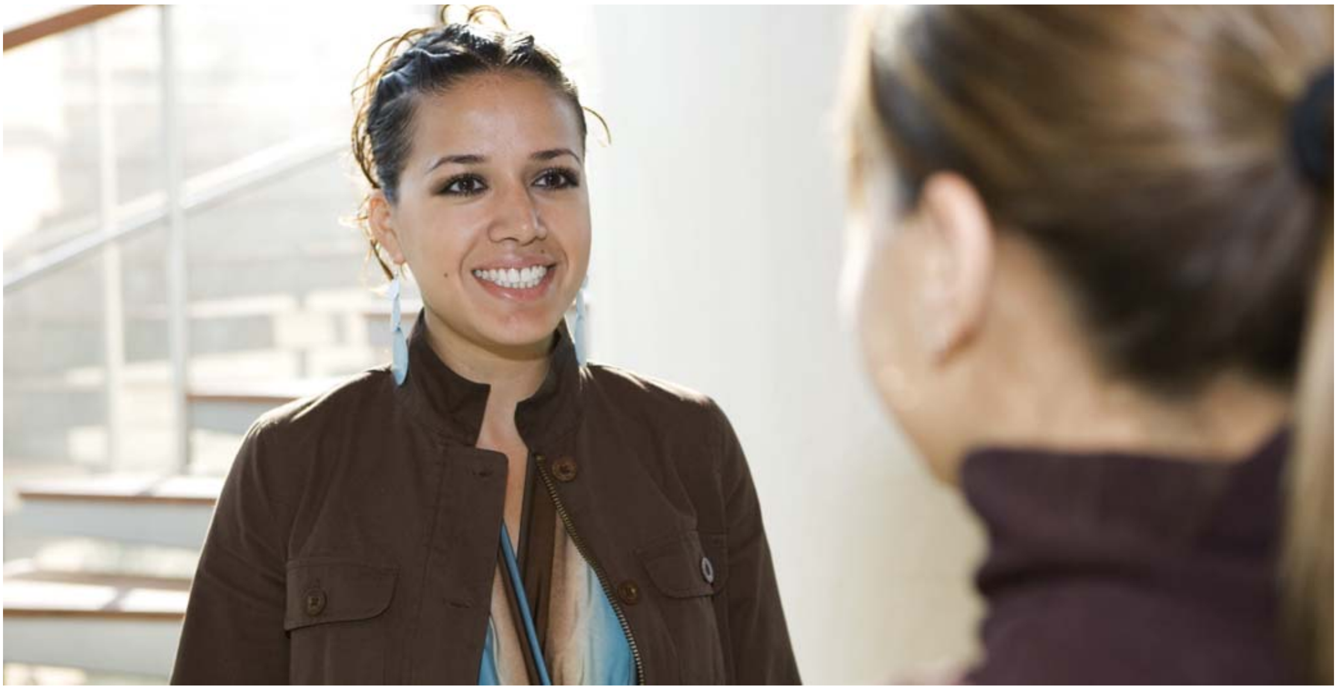
Respect
The strong relationship and understanding between an agent and their customers is key.

Service
Our employees are focused on delivering a high quality service to all our customers.

48 hours
is our target for delivery of the loan in cash, from first contact

75%
of eligible customers took a further loan in 2007

'Low and grow'
strategy of starting loans low



The second is the ability to manage risk. We use the unique insight into customers' circumstances that is afforded by the weekly agent-customer contact, together with statistical decision support systems that guide lending decisions to manage impairment at relatively low levels.

A responsible approach

Protecting the customer – and the business

Responsible lending and proper care for the customer are built into the home credit system. We know how important it is that customers should not over-commit themselves, so we start our loans low. The first is usually between £75 and £200 and is repayable over 26 or 39 weeks. Once customers have established a sound repayment record and the agent knows them better, they can be offered higher loans of £300 to £400, repayable over 39 or 52 weeks. We call this our 'low and grow' strategy.

The way in which agents are rewarded supports our responsible approach. Agents earn commission primarily on the money they collect, not what they lend, so it's not in their interests to lend more than customers can afford to repay.

While the agent system has served us well, we've now added sophisticated scoring systems to refine the agents' lending decisions.

The first of these systems, application scoring, uses demographic data to predict the repayment performance of new customers and shows the size of loan that the agent can offer.

The second new system, behavioural scoring, does a similar job for repeat loans. Basing the calculation on the customer's repayment record, and demographic data, it predicts the risk and therefore the maximum acceptable loan. As well as preventing lending to higher risk customers, behavioural scoring allows the agent to suggest further loans to the better payers.

Under both systems, the final decision lies with the agents and their assessment of the customer's ability to pay.

By the end of 2007 we had introduced behavioural scoring to all our markets and application scoring to all except Romania.

With the new technology, we now have the best of both worlds – the personal judgement of the agents, supplemented by sophisticated systems to enhance their decision-making. The benefits are apparent in the improvement in impairment levels through 2006 and 2007.

Our business continued

Our continued success depends on our ability to recruit and retain high calibre people, to train and motivate them and create a working environment that enables them to develop as individuals.

Our people
Our continued business success depends on having enough talented managers to take the home credit service into more emerging markets and to repeat the success we've achieved so far. In addition to this, we also need to recruit and retain large teams of high-calibre people and to train and motivate them.

Developing and rewarding our people
It's our policy to support employees at all levels throughout their employment. We do this through learning and development programmes and personal development reviews. We also have dedicated learning and development managers in place in all businesses.

We make sure our rewards and remuneration are competitive. We also work hard to be recognised as a good employer, encourage work in the community and maintain strong links with universities. Over 65% of our employees are graduates.

In 2007 there were over 100,000 formal training hours undertaken by employees, representing 18.2 hours per employee.

Talent management
Talent management is a major focus in the business. In 2007 we initiated efforts to identify the country managers, operations directors and field development managers that we'll need to support our future expansion. We also launched a new leadership development programme.

In 2008 this approach will also be cascaded to other levels of management.

Fostering good employee relations
Regular communication helps employees to understand what we expect of them and is important in keeping up-to-date with what's happening in the business. Formal engagement surveys are carried out every two years to help the Group to gauge if approaches to people management are appropriate and to understand the perceptions of the overall working experience. In our faster growing markets, we also conduct 'pulse' checks each year to measure employee satisfaction.

Agents
Given that the agent-customer relationship is the heart of our business, we also devote a great deal of effort to recruiting, training, managing and motivating the agent force in each market.

Because not many people do what we do, and certainly not on our scale, there is normally no ready-trained pool of agents in our marketplace. Starting from scratch, we've shown we can build high-quality national agent forces many thousands strong and put in place the supporting management and infrastructure. We continually strive to improve communications with agents and development managers to involve them more closely in the business.

Health and personal safety
We're committed to seeking to protect the health, safety and wellbeing of all our people and those to whom we owe a duty of care.

A full health and safety induction, extensive ongoing communication and refresher training through a twice-yearly 'Personal Safety Week' help to keep health and safety issues at the forefront of employees' and agents' minds. External health and personal safety audits and risk assessments are carried out regularly across the Group.

Diversity and inclusion
We are committed to treating our employees equally and will not tolerate discrimination in any form in any aspect of employment. Our equality policy, which applies globally, ensures we not only comply with legislation but reflect best practice in our businesses.

In the UK we're a member of Race for Opportunity and the Employers' Forum on Disability. In Poland we run an initiative which helps disabled people to get started in their careers and addresses the obstacles they face in competing for jobs. These are just two examples of the high standards we set in all our markets.

Please visit our Corporate Responsibility report online at www.ipfincrreport.co.uk to find out more about our activities in this area.

Chief Operating Officer's introduction to corporate responsibility

At International Personal Finance ('IPF') we have a vision of the kind of business we want to be – one that acts responsibly, respects others and behaves in a straightforward, transparent manner.

Since the demerger from Provident Financial plc, we've been busy putting in place a new corporate responsibility framework to guide our businesses towards best practice. To demonstrate this, we've set clear commitments to ensure we achieve our goals. We've achieved a great deal in getting where we are today.

At the same time, there are questions we need to regularly ask ourselves: how can we manage our reputation better; how can we ensure that our stakeholders understand the business; and how can we better manage our business within the Financial Services Authority's (FSA) 'Treating Customers Fairly' (TCF) principles?

For our customers, it's a question of providing relevant products in a responsible way – which is precisely why we're aligning our practices to the FSA's TCF initiative.

Going further, we're trying to communicate our values down through the Group so they become part of the mindset and start to influence every working relationship – particularly that between agent and customer.

For the communities in which we operate, we want to make a difference in areas that relate to our business and industry. Hence the new focus on financial literacy in our community investment programme.

We also want to take account of the views and concerns of investors and other stakeholders in the way we shape our corporate responsibility programmes and report progress against them. We therefore intend to report annually on our corporate responsibility activities.

This summary highlights what we're doing at the moment and what we intend to do in the future. We hope it demonstrates that we're travelling in the right direction. The full 2007 Corporate Responsibility report is available online at www.ipfincrreport.co.uk.

John Harnett
Chief Operating Officer

Managing our responsibilities

We think one of the most effective methods of continually improving performance, and of demonstrating a genuine commitment to responsible business practice, is the development of measurable goals.

Our approach to corporate responsibility (CR) involves setting up initiatives which support the business and address the issues that matter. This means having corporate standards in place to ensure we carry out our business in a responsible manner, including, for example, measures to gain the trust and confidence of our customers. It also means investing in local communities and the way we manage, develop and ultimately retain our people.

The process has been led from the top by the Chief Operating Officer who, as board member responsible for CR, chairs the CR steering committee which directs and oversees our policies and progress. This in turn is supported by a responsible lending group, an international CR working group and an environmental working group in each country. 2008 will see the formation of a TCF project group.

Our commitments

In 2007 the CR steering committee outlined broad commitments and all businesses have set specific operational goals through the international CR working group.

At Group level, we have committed to achieve the following over the next three years:

- Improve the co-ordination of responsible business initiatives, such as TCF and responsible lending, and improve the efficiency of our programmes by establishing effective global working groups.
- Bring greater focus to financial literacy and develop it as a strategic theme of our community investment activity.
- Build on the success of our environmental management system and bring all businesses up to a consistently high standard through training and audits.
- Build on responsible workplace initiatives, including diversity and employee engagement.

We aim to be a responsible company that treats its customers well.

Working with others towards best practice
We work with a wide range of external organisations in all areas of operation with the aim of sharing best practice and learning from others. We are members of CSR Europe and the London Benchmarking Group. We encourage our businesses to benchmark their performance against national indices such as the Czech Donors' Forum and the 'Empresa Socialmente Responsable' (which translates as socially responsible company) in Mexico.

When it comes to community investment, all our businesses work with partner organisations with expertise in local community needs. We greatly value our partnerships with charitable and not-for-profit organisations and believe they add great value to our CR activities.

Communicating with our stakeholders
Stakeholder dialogue is about connecting with those who have an interest in, or effect on, the business.

Our stakeholders include customers and consumer groups, industry bodies, employees, agents, shareholders and investors, regulators, providers of finance, suppliers, government and the media. They also include interested professionals from non-governmental organisations and academia.

Stakeholder engagement is important for gathering input and ideas, improving our decision-making, strengthening relationships and ultimately enhancing our reputation.

The Group engages with stakeholders both formally and informally. We've carried out informal discussions with a wide range of external organisations and are developing this area as a priority for 2008. We also organise employee and agent forums and carry out engagement surveys along with market research and customer surveys.

Visit our full 2007 Corporate Responsibility report online at www.ipfincrreport.co.uk

Managing our responsibilities continued

A responsible approach to lending

We aim to be a responsible company that treats its customers well. We have controls to guide how we lend and the way the field agent force behaves, and have clear credit control and arrears policies.

In 2007 we set up a responsible lending group to investigate ways of giving home credit customers a better experience. We are committed to developing policies and practices to ensure we are aligned to the principles of TCF.

Simple, transparent products

We make every effort to ensure that our customer documentation is clear and simple. We send welcome letters to new customers to clarify their responsibilities and provide 'cooling-off' periods to give them time to reconsider. Our operating companies have supported the 'read before you sign' campaign which encourages consumers to be fully informed before making commitments.

Helping customers to manage their commitments

By virtue of their weekly visits, agents get to know their customers' changing circumstances and can make sure they lend accordingly. All agents receive ongoing guidance in managing their customers and deciding the appropriate amount to lend. The fact that they're predominantly rewarded by what they collect, not by what they lend, means it's not in their interests to allow their customers to over-commit themselves.

The agent's personal judgement is supplemented by rigorous systems and procedures. Each new customer is subject to a budget assessment, and new scoring systems for first-time and repeat borrowers are a further move towards making sure that each loan is appropriate. With these systems now in place in most markets, we've seen impairment rates reduced across the Group. This is good for the customer and good for the business.

Recruiting and supporting agents

It's vital that agents behave responsibly and so we recruit them with care. During 2007 we reviewed the agent recruitment processes and guidance to ensure we find agents who share our values and our commitment to responsible lending.

Agent skills are tested in a thorough induction process and they are supported by our network of field managers. Weekly meetings between agents and their development managers not only provide guidance but can cover issues such as health and safety and the agent's development.

90%
of customers feel that our loan agreements are easy to understand

88%
of customers are satisfied with using agents

68%
overall customer satisfaction

Investment helps us build better relationships with our local communities.

Investing in our local communities

Community investment is one of the most visible aspects of our CR programme. A key part of managing our reputation, it helps us build better relationships with our local communities and therefore with our customers, employees and agents.

Through our community investment activities, we want to build confidence in those excluded from education and to reduce or eliminate the barriers to employment and wider social participation.

In our community activities, it's important to balance the needs of the community with those of the business, as well as the aspirations of our employees. As a result, we have a mix of strategic programmes in financial literacy, regional education and social inclusion initiatives along with employee-driven activities such as volunteering and fundraising.

Financial literacy

We decided in 2007 to make financial literacy the central theme of our community programme. Helping consumers to be better educated on issues such as money management and using credit wisely is clearly good for consumers and good for our business.

Community programmes

Community programmes in each of our markets are designed to support business objectives while making a lasting and positive impact on those benefiting from our activities. Our businesses manage their own programmes but are guided by a central community investment policy.

Details of our extensive community investment programmes can be found in our full 2007 Corporate Responsibility report online at www.ipfincrreport.co.uk.

Visit our full 2007 Corporate Responsibility report online at www.ipfincrreport.co.uk

Managing our responsibilities continued

We work hard to understand and manage our impact on the environment.

Protecting the environment

We work hard to understand and manage our impact on the environment. To ensure we constantly improve, we have a Group environmental policy and an environmental management system (EMS). Environmental objectives are set at Group level and each business environmental working team devises annual targets for its own business. Environmental data used to monitor performance and progress towards targets is verified externally. All countries carry out an annual audit against the requirements of the international environmental management standard ISO14001.

Climate change

Our impact on climate change mainly results from our use of transport. Our business requires international air travel and the necessary high use of cars, mainly by field employees and agents.

Our carbon footprint for 2007 was 18,868 tonnes of CO_2 based on energy (mainly electricity use) used in buildings and business travel. This represents 3.59 tonnes per employee. In 2007 across the Group we used an average of 111 kWh of electricity per M^2 of office space. Our emissions by car were an average of 6.32 kg of CO_2 per customer. Emissions from air travel were an average of 0.24 kg of CO_2 per customer.

In the UK, the move to new offices in February 2007 was an opportunity to become more energy-efficient. We have ongoing programmes to manage our environmental impact across the Group.

A key priority is to reduce the amount of paper we use and the waste we produce. All our businesses segregate and recycle waste where possible. In the UK, we've already moved to using 100% recycled paper.

Raising awareness

All our businesses are seeking to engage their employees in the environmental agenda. Most make good use of their employee and agent magazines as well as communicating via the intranet and through competitions, employee forums and family days. We would not be able to run the environmental programmes with such success without the enthusiasm of our employees.

Details of our individual country environmental programmes can be found in our full 2007 Corporate Responsibility report online at www.ipfincrreport.co.uk.

1.1%
of pre-tax profit invested in community initiatives

6,000
working hours volunteered by employees and agents

100%
use of recycled paper in the UK

3.59
tonnes of CO_2 per employee

Looking ahead

A key ingredient is harnessing the support of our people in our CR efforts, and we think that's one area we're getting right. For example, the Executive Chairman is personally involved in overseeing our project to embed our new values, all the way through to our office employees promoting the merits of waste reduction and recycling.

That said, it's early days for the Group and we still have a great deal to do. We expect to report good progress next year regarding all aspects of our CR programmes, especially our work on 'Treating Customers Fairly', responsible lending, financial literacy and stakeholder engagement.

Visit our full 2007 Corporate Responsibility report online at www.ipfincrreport.co.uk

Principal business risks

Our approach to risk management

The Group takes the identification and management of its key risks very seriously, under the governance of the audit and risk committee. The schedule of risks is formally updated and presented to the committee twice a year, although key risks are monitored on an ongoing basis, with developments reported to the board.

Risks are managed at a country level, with the local management teams responsible for the identification and mitigation of risks specific to their country. However, some risks are pertinent across all markets and are managed on a consistent basis, with support provided by the central team in the UK.

These risks are wide ranging but can be broadly categorised as financial, reputational, regulatory, strategic and operational risks.

Financial risks

The Group's main financial risks and policies are discussed in more detail in the financial review on pages 37 to 39. However, the main financial risks facing the Group are as follows:

Counterparty risk

International Personal Finance ('IPF') does not hold significant investments. However, as a cash business, it does hold cash balances in operational bank accounts for withdrawal by agents to use in providing loans to customers. Where possible, IPF holds cash only with A3 rated financial institutions. Balances held at institutions with a lower credit rating are classified as 'excess risk' and are subject to board approval.

Currency risk

All of the Group's trading operations are denominated in currencies other than sterling. This means that the value of the reported results and related assets and liabilities, as well as cross border transactions, are at risk of adverse exchange rate fluctuations. This is mitigated by borrowing in the same local currencies as customer net receivables and where possible, by fixing rates to provide certainty.

Interest rate risk

Financing costs represent only around 5% of revenues and therefore, changes in interest rates do not represent a significant risk. However, the Group seeks to manage this risk through the use of interest rate swaps.

Funding and liquidity risk

This is the risk that the Group may not have sufficient liquid funds to repay its liabilities as they fall due, or that funding is withdrawn as a result of a breach of financial covenants. This is managed through the preparation and review of a rolling 12-week cash flow forecast for all operations, along with regular monitoring of relevant KPIs in comparison with budgets and forecasts. As a policy, IPF seeks to ensure that it has sufficient dedicated funding in place for all of its businesses such that it is able to fund the peak borrowing requirement for the following 12 months, with additional headroom of 5%. The latest five-year plan indicates that the Group has sufficient funding through to 2010 and will not breach any covenant.

Credit risk

The management of customer credit risk is of particular importance. This is managed through a combination of application scoring for new customers, behavioural scoring for repeat lending and centralised collections units which are used in some markets to support arrears management. Additional control is provided by the agent, through the discipline of face-to-face contact with the customer.

Credit trends are closely monitored by credit committees in each country, comprising both local and UK-based senior management.

Tax risk

Like any business, changes in tax legislation and practice could materially affect the Group's taxation liabilities. This risk is heightened because the Group operates in a number of different countries, where tax legislation and practice can vary significantly. In many cases in these countries, tax treatments cannot be agreed in advance or determined precisely until tax audits or enquiries have been completed by the tax authorities, which in some cases can be several years after the transaction concerned.

Tax risks are mitigated by using the best external professional advice for all material transactions, supported by strong internal tax expertise both in-country and in the UK. Where possible, tax treatments are agreed in advance with relevant authorities.

Reputational risk

Reputational damage is a significant risk in a financial services business.

The board mitigates this risk in a number of ways. There are established procedures for dealing with media issues and an active communication programme to foster a better understanding of the Group's products is targeted at key opinion formers. The Group has a corporate responsibility management framework led by the Chief Operating Officer. Continued investment in our community schemes helps to foster good relations with customers and the areas in which they live.

Regulatory risks

The Group's operations are subject to various forms of regulation in the jurisdictions in which it operates and these regulations may change and adversely impact the Group's operations.

The Group monitors regulatory developments in all of its markets and, in respect of the European Union, in Brussels. IPF works actively with opinion formers in all markets to ensure its businesses are well understood to mitigate this risk. This is facilitated by membership of the British Chamber of Commerce in most markets and membership of relevant local trade bodies, along with the Consumer Credit Association in the UK.

Strategic risks

Competition

IPF operates in emerging markets because of their strong growth characteristics, coupled with a lower level of penetration of financial products. They are, therefore, very attractive and are subject to increasing levels of competition. As for any business, an increase in competition will place greater pressure upon the Group to retain its existing customers, attract new customers and to recruit and retain high calibre employees and agents.

This risk is mitigated by the Group's distinctive operating model that engenders high levels of customer satisfaction and by continuous use of market research to assess the satisfaction levels of our customers and to identify usage of other financial products. We also monitor competitor activity in terms of product offer and media usage to identify appropriate products and marketing strategies.

Business development

A key strategic aim of the Group is to enter new emerging markets in addition to the countries it currently operates in. To mitigate the risks involved with entering a new geographic area, the Group uses a formal country selection model which applies a number of benchmark tests. These are as follows:

Safety – is the country safe enough for a home-based financial service?

Stability – is the country politically and economically stable enough?

Size – is it large enough to support the fixed costs and earn suitable returns?

Regulation – does the legal and regulatory environment support home credit?

Demand – is demand for financial products growing?

Local funding – can we fund in local currency to manage currency risk?

If these tests are passed, the country will be submitted to the board for investment approval. If successful, a pilot operation will be opened to test our ability to recruit customers cost-effectively, and their related credit performance and propensity to repay. This would typically be 12 to 18 months in duration and only if successful will full roll-out occur.

In addition, to deliver new products, enter new countries, improve operational efficiencies or react to any other changes required by the countries means significant changes to information technology systems. This risk is mitigated by the requirement that all strategic IT projects require approved business cases and are monitored both by a steering group and the relevant operational board, along with the fact that IPF uses professional third parties for delivery of the Group's IT services.

Operational risks

Recruiting and retaining highly skilled management, employees and agents

As the Group continues to grow, it will need to recruit and retain additional suitable personnel, as well as retaining key existing employees, in order to develop its operations further. This is probably the biggest risk that the Group faces.

Principal business risks continued

To mitigate this risk the Group has developed bespoke leadership development programmes to identify and develop its top internal talent.

This is also supported by the use of effective recruitment, retention and succession planning strategies. IPF monitors remuneration and incentive structures to ensure they are appropriate and competitive, and ensures there are training and development opportunities and effective employee communication throughout.

Service disruption

The Group's ability to operate effectively depends on information and communication systems. Such reliance on technology exposes the Group to risk in the event of damage, interruption or failure.

The Group has detailed business continuity procedures and policies in place which are designed to allow the Group to continue trading in the event of such an occurrence. These policies and procedures are tested on a regular basis.

Political and economic instability in operating markets

Each country in which the Group operates will be exposed to its own specific risks. Adverse political, economic, regulatory or social developments in such territories could have a material effect on the development of the Group.

These risks are specifically addressed by the new country entry model, as discussed above. For existing operations, these risks are monitored by the local management teams as well as the Group board.

In the current climate, it is likely that the risk of an economic downturn has increased. The key risk for a consumer lending business is unemployment. The Group monitors trends in this, as well as detailed management information on customer repayment patterns and feedback from agents, which could provide an early warning.

In the event of a recession, the Group believes its risk is mitigated by the short-term nature of its lending, with the average remaining duration of customer receivables being around six months. The risk is also mitigated by credit management systems which would enable the Group to tighten its lending criteria quickly.

Health and safety

The health and safety of all our employees and agents is a key area of importance for the Group.

Consequently, the Group invests a considerable amount of resource ensuring employees and agents are safety conscious. Safety awareness is fully integrated into the agent induction programme and we provide ongoing safety awareness training, holding two dedicated employee and agent 'safety weeks' in every market each year.

Financial review

International Personal Finance ('IPF') was created by the demerger of the international home credit businesses of Provident Financial plc. Its shares were admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities on 16 July 2007. Its results as a trading division for the period up to the demerger date form a part of the consolidated final results of Provident Financial plc. Since then, the Group has traded independently. Its results for the full year ended 31 December 2007, along with comparative information, are reported in the financial statements which are included on pages 54 to 91 of this report and which have been prepared using the principles of reverse acquisition accounting, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). These financial statements show that the statutory profit before tax for the year is £47.0 million (2006: £34.6 million). Statutory earnings per share (EPS) has increased by 41.4% from 8.94 pence to 12.64 pence. The statutory income statement is set out on page 56 of this document.

David Broadbent
Finance Director

In order to provide a better understanding of the underlying year-on-year performance of the businesses comprising the Group, the financial information which is presented in the business review and this financial review includes a number of pro forma adjustments which are designed to show the results of the Group as if it had operated as a standalone entity throughout 2006 and 2007. The main adjustments are as follows:

- funding costs: an increase due to borrowing margins on bank facilities being 50 basis points higher post-demerger, offset by a reduction in the level of borrowings following a capital contribution from the former parent of £70 million prior to demerger;
- the costs of being a separately listed entity and the need to establish an independent central office in the UK;
- additional costs arising from the need to move to new premises and establish an independent IT function;
- a reduction in interest payable to reflect the fact that certain interest costs were charged to IPF by its former parent which would not have been charged had IPF been a standalone entity;
- pension contributions made to the schemes provided by the former parent and accounted for as an addition to the carrying value of the scheme assets (rather than as a charge to the income statement); and
- an adjustment for exceptional demerger costs, which mainly comprise the cost of setting up a separate IT function, an accelerated charge in respect of share-based payments and a credit in respect of the defined benefit pension scheme.

A reconciliation from the statutory profit before tax to the pro forma profit before tax is presented below:

	2007 £m	2006 £m
Statutory profit before tax	47.0	34.6
Funding costs	1.1	2.8
Central office costs	(2.8)	(6.9)
Additional property and IT costs	–	(2.7)
Interest payable to former parent	2.0	2.6
Pension contributions	–	5.3
Exceptional demerger costs	2.8	4.2
Pro forma profit before tax	50.1	39.9

Financial review continued

Percentage change figures for all performance measures other than profit or loss before taxation, earnings per share and return on equity are quoted after restating prior year figures at the current year average exchange rate (CER) for 2007 in order to present the underlying performance variances.

All figures in this financial review are stated on a pro forma basis unless otherwise stated.

2007 results

IPF produced excellent results for the year ended 31 December 2007 with profit before tax increasing by 25.6% to £50.1 million and earnings per share up by 29.5% to 13.65 pence.

	Pro forma 2007 £m	Pro forma 2006 £m	Change £m	Change at CER %
Customer numbers (000)	**1,937**	1,781	156	8.8
Credit issued	**621.1**	524.3	96.8	14.3
Average net receivables	**362.1**	307.7	54.4	11.8
Revenue	**409.8**	365.3	44.5	8.5
Impairment	**(83.2)**	(103.1)	19.9	20.0
Revenue less impairment	**326.6**	262.2	64.4	19.4
Finance costs	**(19.2)**	(18.6)	(0.6)	(0.5)
Operating and administration costs	**(257.3)**	(203.7)	(53.6)	(22.7)
	(276.5)	(222.3)	(54.2)	(20.7)
Profit before taxation	**50.1**	39.9	10.2	25.6*

*At actual exchange rates

There were two key drivers of this performance: strong volume growth and much improved credit quality.

Customer numbers increased steadily in the year, up by 8.8% to 1.94 million. This, together with our focus on providing larger loans over longer terms to our lowest risk customers resulted in credit issued growing by 14.3% and average net receivables growing by 11.8% to £362.1 million. This generated revenue growth of £44.5 million (8.5%) to £409.8 million.

The investment made in implementing improvements to our credit management processes proved successful with the impairment charge reducing substantially, by £19.9 million to £83.2 million and underlying impairment as a percentage of revenue, calculated before provision releases in the first half of £6.0 million (2006: £3.8 million), reducing from 29.3% to 21.8%.

As a result of these factors, revenue less impairment increased by 19.4% to £326.6 million.

Operating and administration costs increased by £53.6 million (22.7%), reflecting four main factors. Firstly, the additional costs of about £5 million of operating enhanced credit control processes, which have supported the reduction in impairment during the year. Secondly, with credit quality well under control, we also increased our marketing investment in the year, which has supported the good growth in customers and net receivables. Thirdly, operating and administration costs include £8.0 million (2006: £0.5 million) of additional costs in Hungary incurred as a result of regulatory changes in November 2006, including employing agents and related administrative changes. And finally, the increase also reflects the increased scale of the Group including higher levels of investment in our developing markets of Mexico, Romania and Russia.

Performance by market

	Pro forma 2007 £m	Pro forma 2006 £m	Change £m	Change %*
Profit before taxation				
Central Europe	**80.6**	64.1	16.5	25.7
Central costs	**(12.5)**	(11.9)	(0.6)	(5.0)
Established businesses	**68.1**	52.2	15.9	30.5
Mexico	**(13.3)**	(9.9)	(3.4)	(34.3)
Romania	**(4.2)**	(2.4)	(1.8)	(75.0)
Russia	**(0.5)**	–	(0.5)	–
Developing businesses	**(18.0)**	(12.3)	(5.7)	(46.3)
Profit before taxation	**50.1**	39.9	10.2	25.6
Taxation	**(15.0)**	(12.8)	(2.2)	(17.2)
Profit after taxation	**35.1**	27.1	8.0	29.5

*At actual exchange rates

The performance of each of our trading operations is covered in the business review.

Central costs

The Group employs around 100 people in its central office in Leeds. Costs incurred in 2007 were £12.5 million, which represents a small increase on 2006. The role of this central team is as follows:

- the identification and detailed research of countries for potential market entry;

Well capitalised with 45.9% of customer receivables supported by equity

- Group oversight and shareholder-facing activities, including the IPF board, investor relations, corporate reporting, risk management and Group treasury and tax functions; and
- the provision of certain services to the international businesses, such as IT services and systems development and support in a number of areas including human resources, accounting, taxation and marketing. Most of the cost of providing these services are borne by the international businesses.

Profit from our established Central European markets, net of central costs of £12.5 million, increased by 30.5% to £68.1 million.

Taxation

The headline tax rates in the markets in which the Group operates are generally lower than corporate income tax rates in the UK. However, IPF does not obtain full deduction for all operational expenses and the impact of disallowed charges increases the effective rate of tax incurred. The pro forma tax charge for the year was £15.0 million (2006: £12.8 million) which represents an underlying effective rate of 29.9% (2006: 32.1%). We expect the Group effective rate to be around 30% for 2008.

Shareholder returns

Pro forma earnings per share

Earnings per share increased by 29.5% from 10.54 pence to 13.65 pence in the year to 31 December 2007. Our established businesses contributed earnings of 18.55 pence per share during 2007, an increase of 34.6%. This covered the costs of developing our businesses in Mexico, Romania and Russia.

Earnings per share

	Pro forma 2007 pence	Pro forma 2006 pence	Change pence	Change %
Central Europe	**21.95**	16.92	5.03	29.7
Central costs	**(3.40)**	(3.14)	(0.26)	(8.3)
Established businesses	**18.55**	13.78	4.77	34.6
Developing businesses	**(4.90)**	(3.24)	(1.66)	(51.2)
Total	**13.65**	10.54	3.11	29.5

Return on equity

The return on equity generated by the Group has also increased. For this purpose, Group equity has been allocated to business units based on the distribution of customer receivables, with central costs allocated to Central European receivables. During 2007 the Group generated a return on equity of 19.8% (2006: 17.0%). Our established businesses contributed a return of 28.7% up from 27.2% in 2006.

Dividend

At demerger we said that, in the absence of unforeseen circumstances, the directors of IPF intended to declare aggregate dividends in respect of 2007 of 4.75 pence per share. An interim dividend of 1.90 pence per share was paid on 19 October 2007 and, subject to shareholder approval, a final dividend of 2.85 pence per share will be paid on 23 May 2008 to shareholders on the register at close of business on 11 April 2008. The shares will be marked ex-dividend on 9 April 2008.

We intend to continue to adopt a progressive dividend policy with a medium-term target of reaching and subsequently maintaining a dividend payout ratio of 25% of post-tax profit.

Balance sheet

The statutory balance sheet for IPF as at 31 December 2007 and 31 December 2006 is set out on page 58. The pro forma balance sheet for 31 December 2006 and a reconciliation to the statutory balance sheet is provided on page 90.

Summary balance sheet

	2007 £m	Pro forma 2006 £m	Change %	Change at CER %
Fixed assets	**59.5**	44.2	34.6	26.4
Receivables	**443.2**	331.0	33.9	18.8
Cash	**88.8**	44.6	99.1	88.4
Borrowings	**(370.8)**	(242.7)	(52.8)	(37.9)
Other net liabilities	**(17.1)**	(26.9)	36.4	34.0
Equity	**203.6**	150.2		
Equity to receivables	**45.9%**	45.4%		
Gearing	**1.8x**	1.6x		

Financial review continued

Fixed assets primarily represents our investment in IT systems, which accounts for the majority of the increase in fixed assets since 2006. Fixed assets also includes the licence purchased as part of the acquisition of a small Russian bank in December 2007. Full details of the acquisition are provided in note 10 to the financial statements.

Customer receivables grew strongly during the year, particularly during the second half as customer growth accelerated in Central Europe. At 31 December 2007 net receivables were £443.2 million, which at constant exchange rates represents growth of 18.8% over the year. 95% of our receivables are contracted to be repaid within 12 months.

Analysis of receivables

	2007 £m	2006 £m	Change £m	Change at CER %
Poland	**224.6**	164.1	60.5	18.0%
Czech Republic	**79.9**	64.6	15.3	9.3%
Slovakia	**25.6**	23.1	2.5	(0.9%)
Hungary	**84.9**	60.1	24.8	30.1%
Central Europe	**415.0**	311.9	103.1	17.1%
Mexico	**22.9**	18.1	4.8	29.7%
Romania	**5.3**	1.0	4.3	415.7%
Total	**443.2**	331.0	112.2	18.8%

The Group cash flow statement is detailed on page 59 of the financial statements. At 31 December 2007 the Group held cash and cash equivalents of £88.8 million, an increase of £44.2 million on the previous year. Of this, approximately £12.1 million (2006: £7.7 million) represents cash balances retained by agents for operational purposes.

At the end of December 2007 the Group had total committed facilities of £546.2 million, and of this, £175.4 million was unutilised. 95% of borrowing facilities are committed for at least two or more years after the balance sheet date. These facilities are sufficient to support the planned growth in the business until March 2010.

Maturity profile of receivables and funding

	Year end receivables £m	Year end receivables %	Funding facilities* £m	Funding facilities %
Less than one year	422.7	95	29.3	5
More than one year	20.5	5	516.9	95
	443.2	100	546.2	100
Borrowings			(370.8)	
Headroom			175.4	

*Excluding uncommitted overdrafts.

The Group is strongly capitalised and well positioned to fund its growth strategy. At 31 December 2007 it had net assets of £203.6 million, an increase of £53.4 million compared with pro forma net assets at the end of 2006. Balance sheet gearing, calculated as borrowings divided by shareholders' equity, remained conservative at 1.8 times (2006: 1.6 times), and customer receivables were 45.9% funded through equity – a slight increase from the position at the end of 2006.

The Group believes that this is a healthy position given the current uncertainty surrounding financial markets and the world economy. The Group expects the strong returns demonstrated by Central Europe to provide sufficient capital to support both its own growth and to support the development of Mexico, Romania and Russia (subject to satisfactory performance during pilot) into profitable capital generative businesses in their own right.

This means that the Group continues to expect to meet the equity capital requirements of its growth strategy from its own resources.

Pensions

As part of the demerger from Provident Financial plc on 16 July 2007, it was agreed that the companies and employees of IPF would continue to participate in the Provident Financial plc pension arrangements until 31 December 2007.

On 1 January 2008 the Group established a new defined benefit pension scheme for those employees who had previously been members of the schemes operated by Provident Financial plc. The liabilities relating to the past and present employees of IPF are to be transferred over to this new scheme, together with an amount of assets which is broadly equal to the value of liabilities on 16 July 2007 adjusted to allow for subsequent

£175.4m of headroom on committed debt facilities – funding sufficient to support growth to 2010

investment returns and cash flows plus £3.5 million. At the date of demerger, a net retirement benefit asset of £3.5 million was brought onto the Group balance sheet with an equivalent credit being included within exceptional demerger costs.

Between the date of demerger and 31 December 2007 the net retirement benefit asset reduced to £1.7 million as shown in the table below:

	£m
Retirement benefit asset at date of demerger	3.5
Pension credit in the income statement	0.1
Employer contributions	0.1
Actuarial losses	(2.0)
Pension asset as at 31 December 2007	1.7
Analysed as:	
Fair value of scheme assets	31.9
Present value of scheme liabilities	(30.2)
	1.7

The defined benefit pension arrangements previously operated by Provident Financial plc and now to be operated by IPF were closed to new members from 1 January 2003. All eligible UK employees joining after that date are now invited to join a stakeholder pension plan into which the company contributes 8% of members' pensionable earnings, provided the employee contributes a minimum of 6%.

Management of financial risks

The ultimate responsibility for management of financial risks and treasury activity rests with the board, who approve treasury-related policies and monitor compliance by means of a treasury report which is provided at each board meeting.

Certain authorities are delegated to the treasury committee comprising the Finance Director (Chairman), the Group treasurer, the Finance Directors of each of the operating subsidiaries, and other senior Group finance employees. This committee meets 11 times a year. The role of the treasury committee is to monitor compliance with policy; review and approve any policy changes prior to submission to the board; approve strategies and specific proposals to maintain policy compliance; and monitor the impact of wider economic issues. Activity reports are presented at each board meeting.

The Group employs a central UK team to manage many of the treasury activities for the Group, including facility and pricing negotiation and hedging strategies. This team is supported by banking teams in each of the overseas markets who are responsible for management of operational banking facilities and relationship management with our local banking partners.

Detailed policies are in place to manage the financial risks to which the Group is exposed, and to regulate how the individual treasury activities are to be conducted. This is to ensure that activities undertaken will not expose the Group to unnecessary risk and that treasury activities are consistent with and support the Group's strategic and operational objectives. The philosophy underlying this is risk management and reduction – the Group does not seek to engage in risk creation and there is a clear Group policy not to take any speculative or trading positions.

The key areas of risk, and how the Group manages them, are as follows:

Funding and liquidity risk

This is the risk that the Group may not have sufficient liquid funds to repay its liabilities as they fall due, or that funding is withdrawn as a result of a breach of financial covenants; or that it may not have access to sufficient funding to operate or achieve its strategic targets.

This is governed by the Group funding policy, which requires appropriate headroom on committed debt facilities on a forward-looking basis compared with forecast borrowings. Operationally, this is managed through the preparation and review of a rolling 12-week cash flow forecast for all operations, which is compared to budgets and forecasts that are updated at least twice each year. IPF seeks to ensure that it has sufficient dedicated funding in place for all of its businesses such that it is able to fund the peak borrowing requirement for the following 12 months, with additional headroom of 5%.

Currently, there are sufficient committed facilities in place for business plans to 2010, and in all markets local currency receivables are funded with local currency borrowings. These bank facilities are provided by a range of highly-rated banks across a number of jurisdictions.

Financial review continued

Interest rate risk

This is the risk that volatility in interest rates has a material impact on profit.

This is governed by the Group interest rate risk policy, which seeks to achieve a high level of certainty of interest costs on borrowings in each currency over the medium-term. The policy requires that interest costs on borrowings are fixed, primarily through the use of interest rate swaps, on a proportion of borrowings. Typically, this means that above 70% of the Group's forecast interest costs for the next 12 months will be at fixed rates. Swap contracts are matched to outstanding borrowings so as to qualify for hedge accounting under IAS 39 – this means that the movement in the fair value of the swap is recorded in reserves rather than in the income statement. For a swap to qualify for hedge accounting it has to meet the IAS 39 test of being highly effective.

In assessing the Group's exposure to interest rate risks it should be noted that financing costs represent only approximately 5% of revenues and, therefore, changes in interest rates do not represent a significant risk. The short-term nature of the loan contracts also means that in the event of a significant increase in costs, we are able to re-price new business and reset the yield of the loan portfolio quickly, if deemed appropriate.

Currency risk

This is the risk that currency movements have a material impact on profit, cash flows or net assets.

This represents a key area of risk for the Group, given its operations in eight countries, including the UK, all with different reporting currencies. All of IPF's trading operations are denominated in currencies other than sterling. This means that the value of the reported results and related assets and liabilities, as well as cross-border transactions, are at risk of adverse exchange rate fluctuations.

The Group's exposure is managed by the currency risk policy, which addresses three key areas:

- Balance sheet revaluation – the impact of currency movements on foreign currency denominated assets and liabilities – this exposure is primarily hedged by funding local currency assets (predominantly receivables) with local currency borrowings. This helps to minimise the overall level of net assets denominated in overseas currencies.
- Transactional – all expected future cross-border cash flows over a rolling 12-month period, denominated in overseas currencies, are hedged using spot and forward currency contracts.
- Translational – the impact of currency movements on reported profit – some economic hedging of forecast profit in each six-month reporting period takes place using forward contracts in order to provide increased certainty of reported profit.

	2007		2006	
Exchange rates	Closing rate	Average rate	Closing rate	Average rate
Poland	**4.90**	**5.53**	5.68	5.71
Czech Republic	**36.04**	**40.54**	40.78	41.51
Slovakia	**45.68**	**49.33**	51.08	54.50
Hungary	**343.14**	**366.75**	372.57	386.85
Mexico	**21.67**	**21.85**	21.14	20.09
Romania	**4.87**	**4.87**	5.01	5.16

Counterparty risk

This is the risk taken in relation to financial institutions. This risk arises through operational banking arrangements, derivative and forward currency transactions, and cash deposits. The Group aims to minimise the level of cash deposits and does not hold significant investments. However, as a cash business, it does hold cash balances in operational bank accounts for withdrawal by agents to use in providing loans to customers.

95% of customer receivables due in less than a year

95% of debt facilities committed for more than one year

Exposure is limited to banks which meet a minimum external credit rating, and individual limits are applied to those banks based on their rating. Where possible, the Group holds cash only with A3 rated banks. Balances held at institutions with a lower credit rating are classified as 'excess risk' and are subject to board approval.

Capital risk

This is the risk that the availability of capital will not be sufficient to support the growth of the business. Capital adequacy is monitored internally by considering the ratio of equity to amounts receivable from customers and the gearing ratio. It is not subject to regulatory control. As noted on page 35, equity to receivables at 31 December 2007 was 45.9% (2006: 45.4%). As a result of this, the Group believes that it is well capitalised.

Credit risk

This is the risk that amounts receivable from customers will not be recovered. The Group lends low value amounts over short-term periods to a diverse group of customers across a number of countries and the risk of a material unexpected loss is therefore low. The risk is minimised by the use of application and behavioural scoring techniques to ensure the Group only lends to those customers who can afford the repayments.

IFRS 7 'Financial Instruments: Disclosures'

The financial statements include the disclosures in respect of financial instruments required by IFRS 7. In reviewing the disclosures in respect of customer receivables, the following should be noted:

- Amounts receivable from customers are assessed for impairment each week and any change in expectation of the amount to be recovered is reflected in the impairment charge in the income statement.
- The expected future cash flows in respect of delinquent customers are based on actuarial curves which have been derived by third-party actuaries and are refreshed periodically to ensure they are reflective of recent credit trends.
- Any failure to make a full contractual repayment is treated as a customer delinquency and the carrying value of the customer receivable is reassessed to include an estimate of impairment. This, combined with the fact that for our home collected products the Group does not charge defaults for missed payments, means that 73% of receivables were impaired at 31 December 2007 (at 31 December 2006: 64%).
- The Group does not look to re-age or renegotiate contracts when customers take longer than the contracted term to repay. As a result, no receivables are past due and not impaired and there are no receivables that would have been impaired had their terms not been renegotiated.

Going concern

After reviewing the budget for the year to 31 December 2008 and the forecasts for the four years to 31 December 2012 which included information in respect of profit, cash flows and banking covenants, and after taking into account the existence of committed banking facilities which are sufficient to fund the planned growth of the business until 2010, the directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason they have adopted the going concern basis in preparing the financial statements.

David E S Broadbent
Finance Director

Directors and board committees

Christopher Rodrigues CBE
Executive Chairman, age 58
Graduated with a degree in economics and economic history and an MBA. He joined the board of Provident Financial plc in January 2007 as Joint Deputy Chairman and Chairman of its international division before joining the board of International Personal Finance at demerger from Provident Financial plc in July 2007. Between 2000 and 2004 he served as Chief Executive of Bradford and Bingley plc and prior to that as Chief Executive of Thomas Cook. He was a founding board member of the Financial Services Authority and is also a former President and Chief Executive of Visa International. He is Chairman of VisitBritain, a non-executive director of Ladbrokes plc and Chairman of the Trustees of the Windsor Leadership Trust.

John Harnett
Chief Operating Officer, age 53
Graduated in business studies and qualified as a chartered accountant in 1981. He joined Provident Financial plc in 1999 and was appointed Finance Director before becoming Managing Director of its international division in May 2006. He transferred to International Personal Finance at demerger. He previously served as Finance Director of Allied Colloids PLC and of Holliday Chemical Holdings plc.

David Broadbent
Finance Director, age 39
Graduated with a degree in classics and qualified as a chartered accountant in 1990 before taking an MBA. He joined the international division of Provident Financial plc in 1999 and was appointed Finance Director of the division in 2003. He was appointed Finance Director of International Personal Finance at demerger. He was previously a senior manager with PricewaterhouseCoopers.

Ray Miles
Deputy Chairman and senior independent non-executive director, age 63
Graduated with a degree in economics and an MBA. He served on the board of Provident Financial plc from 2004 until July 2007 and joined the board of International Personal Finance at demerger. He is Chairman of Southern Cross Healthcare Group PLC and an advisory director of Stena AB of Sweden. He is also Chairman of Devon Community Foundation. He was formerly Chief Executive of CP Ships Limited.

Charles Gregson
Independent non-executive director, age 61
Graduated in history and law and qualified as a solicitor. He joined the board of Provident Financial plc in 1995 as a non-executive director and was appointed Deputy Chairman in 1997. He joined the board of International Personal Finance at demerger. He is non-executive Chairman of ICAP plc and Chief Executive of PR Newswire Association Inc and has served on the board of United Business Media plc.

Tony Hales
Independent non-executive director, age 59
Graduated with a degree in chemistry. He joined the board of Provident Financial plc in October 2006 as a non-executive director and was appointed to the board at demerger. He is currently Chairman of each of British Waterways, Workspace Group plc and NAAFI Limited and a non-executive director of SIS Group Limited. He has previously served as Chief Executive of Allied Domecq plc and as a non-executive director of Welsh Water plc, Aston Villa plc, HSBC Bank plc and Reliance Security Group plc.

Nick Page
Independent non-executive director, age 55
Graduated in philosophy, politics and economics and qualified as a chartered accountant in 1977. He was appointed as a consultant by Provident Financial plc in April 2007 and to the board of International Personal Finance at demerger. He was formerly Chief Operating Officer of Travelex plc and previously held positions as Managing Director of Hambro Insurance Services plc, an executive director of Hambros Bank and Joint Deputy Chairman of Hambro Group Investments. He has also served as a non-executive director of MoneyGram International Limited.

Audit and risk committee
Nick Page, Chairman
Tony Hales
Ray Miles

Executive committee
Christopher Rodrigues, Chairman
David Broadbent
John Harnett

Remuneration committee
Ray Miles, Chairman
Tony Hales
Nick Page

Nomination committee
Christopher Rodrigues, Chairman
Charles Gregson
Tony Hales
John Harnett
Ray Miles
Nick Page

Disclosure committee
John Harnett, Chairman
David Broadbent
Rosamond Marshall Smith

From left to right
Christopher Rodrigues
Tony Hales
Charles Gregson
John Harnett
Ray Miles
Nick Page
David Broadbent

Directors' report

The directors submit their report for the financial year ended 31 December 2007.

1. Review of the business

1.1 A review of the business of the Group appears in the business review on pages 8 to 32 which forms part of this report.

1.2 International Personal Finance plc ('the Company') is a holding company. Details of the main trading subsidiary undertakings are shown on page 68 in note 12 of the notes to the financial statements.

2. Incorporation and background

2.1 The Company was incorporated and registered in England and Wales under the Companies Act 1985 as a private company limited by shares on 5 December 2006 with the name Bridgesun (3) Limited. By a special resolution, the Company re-registered as a public company limited by shares with the name International Personal Finance plc on 24 May 2007.

2.2 The Company became the holding company of the international businesses of Provident Financial plc ('PF') which were demerged from PF on 16 July 2007.

2.3 On that date the issued share capital of the Company was both admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's main market for listed securities.

3. Directors

3.1 The directors of the Company as at 31 December 2007 are listed in paragraph 4.1 below.

3.2 The initial directors of the Company were Rosamond Marshall Smith and Emma Versluys. They both resigned on 2 January 2007 when Andrew Fisher and John Harnett were appointed. Andrew Fisher resigned on 30 March 2007; on that date David Broadbent was appointed.

3.3 On 16 July 2007 the following persons became directors: Christopher Rodrigues, Charles Gregson, Tony Hales, Ray Miles and Nick Page.

3.4 The Company's Articles of Association permit it to indemnify directors of the Company (or of any associated company) in accordance with the Companies Act 2006. However, no qualifying indemnity provisions were in force in 2007 or at any time up to 21 March 2008.

4. Directors' interests

4.1 The notifiable interests of each director (and his connected persons) under the Disclosure and Transparency Rules issued by the Financial Services Authority ('the FSA') as at 31 December 2007 were as follows:

	Number of shares
Christopher Rodrigues	187,888
John Harnett	163,071
David Broadbent	10,000
Charles Gregson	51,837
Tony Hales	25,000
Ray Miles	109,000
Nick Page	26,135

4.2 There were no changes in these interests between 31 December 2007 and 21 March 2008.

4.3 Details of contingent awards of shares to directors are set out on page 52 in paragraphs 5 and 6 of the directors' remuneration report.

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

5. Dividends

An interim dividend of 1.90p per share was paid on 19 October 2007. The board recommends a final dividend of 2.85p per ordinary share to be paid on 23 May 2008 to shareholders on the register at the close of business on 11 April 2008. This makes a total dividend for the year of 4.75p per ordinary share.

6. Principal risks

A summary of the principal risks and uncertainties facing the Group is set out on pages 30 to 32 of the business review which forms part of this report.

7. Corporate governance

Full details of the Company's approach to corporate governance and the statement of compliance with the Combined Code are set out on pages 46 to 49 in the corporate governance report.

8. Interests in voting rights

As at 21 March 2008, the Company had been notified, pursuant to the FSA's Disclosure and Transparency Rules, of the following notifiable voting rights in its issued share capital. These holdings relate only to those institutions which have notified the Group of an interest above 3% of the issued share capital.

	Direct voting rights	Indirect voting rights	Percentage of issued share capital
Schroder Investment Management Limited	–	27,225,574	10.59%
Prudential plc and its subsidiaries	17,412,312	–	6.76%
Baillie Gifford & Co	–	13,459,540	5.23%
Legal & General Group Plc	12,023,122	–	4.67%

9. Share capital

9.1 As at 16 July 2007, immediately following the listing referred to in paragraph 2 above, the authorised share capital of the Company was £852,550,034 divided into 501,500,020 ordinary shares of 170p each.

The issued ordinary share capital comprised 257,217,888 shares. By way of a court order registered by the Registrar of Companies on 19 July 2007, the Company's authorised share capital was reduced to £50,150,002 divided into 501,500,020 ordinary shares of 10p each. No further shares were issued in 2007. Full details of the share capital history are set out on page 83 in note 26 of the notes to the financial statements.

9.2 Awards over shares in the Company were made during the year under the International Personal Finance plc Incentive Plan ('the Incentive Plan'). The precise number of shares will not be determined until the awards vest.

9.3 During 2007, contingent awards were made over 1,592,193 shares under the International Personal Finance plc Performance Share Plan ('the Performance Share Plan'), of which 1,483,799 shares were outstanding at 31 December 2007.

9.4 Contingent awards over 420,674 shares were made during the year under the International Personal Finance plc Exchange Share Scheme 2007, of which 391,590 were outstanding at the end of the year.

9.5 On 10 March 2008, awards were made over 526,874 shares under the Performance Share Plan. In addition awards were made under the Incentive Plan; the precise number of shares subject to the latter awards will not be determined until the awards vest, but as a result of the lapse of certain awards made immediately following demerger the total value of shares awarded under the Incentive Plan should not exceed 3% of the earned value pool. Further details of these plans are set out on pages 50 and 51 in paragraphs 3.10 and 3.11 of the directors' remuneration report.

10. Environmental, social and governance matters

10.1 During the year, the Company and its subsidiaries made donations of £27,985 for charitable purposes (as defined in paragraph 5 of Schedule 7 of the Companies Act 1985). The Group invested a further £565,848 in cash, employee time and in-kind contributions to charitable and community investment organisations (based on the London Benchmarking Group's guidelines). The Group's community data is reported in line with the London Benchmarking Group methodology and is independently assured by the Corporate Citizenship Company. No political donations were made.

10.2 The board takes regular account of the significance of environmental, social and governance ('ESG') matters to the businesses of the Group. A corporate affairs activity report, which deals with relevant matters, is presented at each board meeting and a corporate responsibility report is presented to the board annually. Responsibility for this area rests with the Chief Operating Officer, who is Chairman of the corporate responsibility steering committee.

10.3 ESG risks are dealt with by means of the Company's risk management process; details of this are set out on page 48 in paragraph 9 (internal control) of the corporate governance report. The board has identified and assessed the significant ESG risks and considers that it has adequate information relating to ESG risks.

10.4 There are no specific remuneration incentives in the Group based on ESG matters. However, the annual bonus scheme for executive directors comprises specific objectives, which include such matters where appropriate; details of this are set out on page 50 in paragraph 3.6 of the directors' remuneration report. Details of training for directors are set out on page 47 in paragraph 2.16 of the corporate governance report.

10.5 The Group's performance against stated environmental objectives and targets, and its progress towards meeting such objectives and targets, is subject to an annual process of external verification. The environmental management system is also subject to an annual independent internal audit against the requirements of ISO 14001. Finally, the annual corporate responsibility report is externally verified to confirm that the progress detailed in the report is accurate and that the information it contains is reliable and accurate. The Group is working towards external assurance against the International Standard on Assurance Engagements (ISAE 3000) for corporate responsibility reporting and has commissioned an independent company to help with this during 2008.

10.6 Full information on specific ESG matters, and how these are managed, can be found in the 2007 Corporate Responsibility report at www.ipfincrreport.co.uk.

11. Health and safety

11.1 The Group attaches great importance to the health and safety of its employees and other people who may be affected by its activities.

11.2 The board has approved a Group health and safety policy and a framework for health and safety. It has established the health and safety steering committee which is chaired by the Company Secretary. This reports to the board annually by means of a written report. Each subsidiary board is responsible for the issue and implementation of its own health and safety policy as it affects the subsidiary company's day-to-day responsibility for health and safety. Health and safety is considered regularly at board meetings and each board produces a written report for the health and safety steering committee once a year.

12. Supplier policy statement

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

12.2 The Company acts as a holding company and had no trade creditors at 31 December 2007. The average number of days' credit taken by the Group during the year was 14 days.

Directors' report continued

13. Financial instruments
Details of the financial risk management objectives and policies of the Company and the exposure of the Company to interest rate risk, currency risk, credit risk and liquidity risk are set out on pages 37 to 39 of the financial review which forms part of this report. Further information can also be found on pages 74 to 78 of the notes to the financial statements.

14. Section 992 of the Companies Act 2006
14.1 The information in this section is given pursuant to section 992 of the Companies Act 2006 and is correct as at 31 December 2007.

14.2 The Company's authorised share capital comprised £50,150,002 divided into 501,500,020 ordinary shares of 10p each and there were 257,217,888 ordinary shares in issue. The ordinary shares were listed on the London Stock Exchange and could be held in certificated or uncertificated form.

14.3 Changes to the Company's Articles of Association must be approved by a special resolution of the Company. The rights attached to any class of shares may be varied with the sanction of an extraordinary resolution passed at a separate general meeting of holders of those shares.

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

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

14.6 As far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company other than as set out in paragraph 8 above.

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

14.8 The Company does not have any agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover. However, provisions in the share plans referred to in paragraph 9 above may cause awards granted to directors and employees to vest on a takeover.

14.9 The rights and obligations attaching to shares are contained in the Company's Articles of Association. In summary:

14.9.1 The Company may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by the board. The board may also pay interim dividends as appear to the board to be justified by the financial position of the Company and may also pay any dividend payable at a fixed rate at intervals settled by the board whenever the financial position of the Company justifies its payment. The Company may by ordinary resolution direct that any dividend may be satisfied wholly or partly by the distribution of assets or (subject to certain limitations) may offer shareholders the right to receive ordinary shares, credited as fully paid, instead of cash in respect of the whole, or some part, of any dividend;

14.9.2 The board may deduct from any monies payable to a shareholder by the Company all sums of money presently payable by such shareholder to the Company. The Company may cease to send any dividend payment to a shareholder if two consecutive dividends are returned undelivered or remain uncashed at the end of the period for which they are valid. Any dividend unclaimed after 12 years may be forfeited;

14.9.3 Subject to certain exceptions: (i) all shareholders have a right to receive notice of every general meeting; (ii) on a show of hands at a general meeting every member who is present in person shall have one vote; and (iii) on a poll at a general meeting every member who is present in person or by proxy shall have one vote for every share of which he is the holder. A poll may be demanded by: (i) the chairman of the meeting; (ii) at least three members present in person or by proxy and entitled to vote; (iii) any member or members present in person or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or (iv) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right;

14.9.4 If the Company commences liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company (together with any sanction required by law): (i) divide among the shareholders the whole or any part of the assets of the Company and, for that purpose, set such values as he deems fair upon any property to be divided and determine how the division shall be carried out as between the members or different classes of members; or (ii) vest the whole or any part of the assets of the Company in trustees upon such trusts for the benefit of the contributories as the liquidator shall think fit. No shareholder shall be compelled to accept any assets upon which there is any liability;

14.9.5 The Company has a first and paramount lien on every share (not being a fully paid share) for all amounts payable to the Company in respect of that share and the Company may sell any such share if the lien remains outstanding for 14 clear days after the Company has served notice on the shareholder of its intention to do so;

14.9.6 The board may make calls at any time upon a shareholder in respect of any monies unpaid on his shares. If the Company serves a notice on the shareholder for non-compliance with a call and the shareholder does not comply with such notice, the shares may be forfeited by a board resolution; and

14.9.7 The Company may sell any certificated shares held on behalf of a shareholder if no cash dividend has been claimed by, nor any communication received from, such shareholder for a period of 12 years provided three cash dividends have become payable during the 12-year period and the Company has published two advertisements giving notice of its intention to effect such a sale.

14.10 There are no restrictions on the transfer (including requirements for prior approval of any transfers) or limitations on the holding of ordinary shares nor any restrictions on voting rights except as set out in the Company's Articles of Association. In summary:

14.10.1 No shareholder shall be entitled to attend or vote at any general meeting of the Company unless all calls or other sums presently payable by him in respect of that share have been paid;

14.10.2 If a shareholder fails to comply with any statutory notice in respect of his shares, the shares shall not confer any right to attend or vote at a general meeting of the Company and (depending on the extent of the individual's shareholding) the board may withhold payment of all or any part of any dividends and/or refuse to register a transfer of any shares (if certificated);

14.10.3 The board may refuse to register the transfer of:

14.10.3(a) a partly-paid share (provided such refusal would not prevent dealing in shares from taking place on an open and proper basis);

14.10.3(b) an uncertificated share in the circumstances set out in the Uncertificated Securities Regulations 2001 (as amended from time to time);

14.10.3(c) a certificated share unless the board has received a duly stamped instrument of transfer (or evidence to show that it is exempt from stamp duty) together with any other evidence the board may reasonably require to show the right of the person executing the instrument of transfer to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person to do so;

14.10.3(d) any share if the instrument of transfer is in respect of more than one class of share; and

14.10.3(e) any share to more than four joint holders.

14.11 Subject to certain exceptions, the business of the Company is managed by the board which may exercise all the powers of the Company whether relating to the management of the business of the Company or not. In summary:

14.11.1 Each director may appoint any person to be his alternate and may at his discretion remove an alternate director so appointed;

14.11.2 The board can appoint anyone as the Company's attorney and may delegate any of its authority or powers of discretion to any manager or agent of the Company;

14.11.3 Subject to certain exceptions, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the board in respect of any contract in which he has an interest which (taken together with any interest of any person connected with him) is to his knowledge a material interest;

14.11.4 The board shall restrict the borrowings of the Company so as to secure that the aggregate principal amount from time to time outstanding of all borrowings by the Group shall not, without the previous sanction of an ordinary resolution of the Company, exceed seven times the aggregate of the amount paid up on the share capital of the Company and the amount standing to the credit of the consolidated capital and revenue reserves of the Company and its subsidiaries; and

14.11.5 As at 31 December 2007, the directors had authority to allot further securities up to an aggregate nominal amount of £8,568,361 (on terms that they may be redeemable or otherwise). Further authorities will be sought at the forthcoming annual general meeting ('AGM'). In addition, the Company had authority to purchase up to 25,705,084 of its own shares up until the date of the first AGM of the Company or, if earlier, 19 December 2008. Any ordinary shares so purchased may be cancelled or held in treasury. A further authority for the Company to purchase its own shares will be sought from shareholders at the AGM.

15. Disclosure of information to the auditors

In the case of each person who is a director at the date of this report, it is confirmed that, so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and he has taken all the steps that ought to have been taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

16. Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the AGM.

17. Annual general meeting

The AGM will be held at 11.30 am on Wednesday, 14 May 2008 at the Kingsway Hall Hotel, 66 Great Queen Street, London WC2B 5BX. The Notice of Meeting, together with an explanation of the items of business, will be contained in the Chairman's letter to shareholders to be dated 8 April 2008.

Approved by the board on 31 March 2008.

Rosamond J Marshall Smith
General Counsel and Company Secretary

31 March 2008

Corporate governance report

1. Introduction

1.1 This section explains how the Company has applied the main and supporting principles set out in Section 1 of the Combined Code published by the Financial Reporting Council in June 2006 ('the Combined Code').

1.2 The statement of compliance is set out on page 49 in paragraph 13.

1.3 This report covers the period from 16 July 2007 to 31 December 2007 as 16 July was the date on which the Company's shares were admitted to the Official List and were admitted to trading on the London Stock Exchange's main market for listed securities ('the demerger date').

2. The board

Composition

2.1 The board leads and controls the Company. It currently comprises two executive directors (Chief Operating Officer and Finance Director), four non-executive directors and an Executive Chairman. The arrangement of an Executive Chairman/Chief Operating Officer has been chosen to ensure that the Group has the depth of management resource needed to support its ambitious expansion plans. The Executive Chairman devotes three days a week to his role with the Company and is more intensively involved in the development of the Company's strategy and stakeholder relationships than would typically be the case.

Division of responsibilities

2.2 The board has approved a statement of the division of responsibilities between the Chairman and the Chief Operating Officer. The Chairman is responsible for developing the strategy and direction of the business and provides vision and overall leadership. He is also responsible for chairing the board meetings and monitoring their effectiveness, and chairing the annual general meeting ('AGM') and the nomination committee. The Chief Operating Officer is responsible for running the business and for other matters (apart from those which are the responsibility of the Chairman, those reserved to the board as a whole and the board committees), which he will delegate accordingly.

Chairman

2.3 The Chairman is also Chairman of VisitBritain and a non-executive director of Ladbrokes plc. There have been no material changes in his other commitments since the demerger date or since the year end. The Chairman was considered at appointment to be independent for the purposes of the Combined Code.

Non-executive directors

2.4 The non-executive directors have been appointed for a fixed period of three years. The initial period may be extended for a further period, subject to re-election by shareholders. Their letters of appointment may be inspected at the Company's registered office or can be obtained on request from the Company Secretary.

2.5 Ray Miles has been appointed as the senior independent director. He is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Operating Officer or Finance Director has failed to resolve.

2.6 Each of the non-executive directors has been formally determined by the board to be independent for the purposes of the Combined Code.

Governance framework

2.7 The board has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and financial results, new board appointments, proposals for dividend payments and the approval of all major transactions. There are five principal board committees. All committees have written terms of reference. The terms of reference can be found on the Company's website (www.ipfin.co.uk) or are available on request from the Company Secretary, who is secretary to all the committees.

Meetings

2.8 Eight board meetings, plus a strategy retreat, are scheduled for 2008. A detailed agenda, together with a pack of board papers, is sent to each director in the week before the board meeting so he has sufficient time to review them. All directors are, therefore, able to bring independent judgement to bear on issues such as strategy, performance, resources and standards of conduct. Additional meetings are called if required and there is contact between meetings, where necessary, to progress the Company's business. In December 2007, the Chairman met with the non-executive directors without any other executive directors present; the non-executive directors met without the Chairman present to discuss the Chairman's performance and the senior independent director was responsible for discussing this with the Chairman.

Company Secretary

2.9 All directors are able to consult with the Company Secretary. The appointment and removal of the Company Secretary is a matter for the board. The Company Secretary is secretary to the five principal board committees.

Independent advice

2.10 There is a formal procedure by which any director may take independent professional advice relating to the performance of his duties at the Company's expense.

Re-election of directors

2.11 Under the Company's Articles of Association, one-third of the directors are obliged to retire each year and each director must offer himself for election every three years. After nine years a director (other than an executive director) must offer himself for re-election annually. A director who is initially appointed by the board is subject to election at the AGM following his appointment.

Policy on other board appointments

2.12 The board has approved a policy on other directorships. Any request for an exception to this policy is considered on its merits.

2.13 A full-time executive director will be permitted to hold one non-executive directorship (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect his executive responsibilities.

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

Performance evaluation

2.15 The board has carried out an evaluation of its performance and that of its committees and individual directors. The Chairman was primarily responsible for this evaluation and in December 2007 submitted a questionnaire to all directors. This contained questions on different aspects of the operation of the board and its committees and the performance of individual directors. The senior independent director was responsible for collating comments on the Chairman's performance. A summary of the evaluation was presented to the board which considered the results of the evaluation; proposals to take account of these were agreed.

Training

2.16 Prior to the demerger date, each director was given a memorandum and briefing on the responsibilities of a director of a listed company. The Company's policy is to provide appropriate training to directors, taking into account their individual qualifications and experience. Ongoing training is arranged to suit individual needs (including environmental, social and governance training as appropriate).

3. Report on the audit and risk committee

3.1 From the demerger date to 31 December 2007, this committee consisted of Tony Hales and Ray Miles under the chairmanship of Nick Page.

3.2 The committee makes recommendations to the board, for the board to put to shareholders in general meeting, in relation to the appointment, reappointment and removal of the auditors and approves their remuneration and terms of engagement. It reviews and monitors the independence and objectivity of the auditors and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. It develops and implements policy on the engagement of the auditors to supply non-audit services and reports to the board (identifying any matters in respect of which it considers that action or improvement is needed) and makes recommendations as to the steps to be taken. It monitors the integrity of the financial statements of the Company and the formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them. It keeps under review the effectiveness of the Group's system of internal controls, including operational and compliance controls and risk management, and reports to the board on its work. It keeps the Group risk register under review and considers the most important risks facing the Group and their mitigation. It also reviews the Group's whistleblowing policy.

3.3 The Group's internal audit function is outsourced to Ernst & Young LLP ('EY') who have provided these services to the business for over six years. The committee formally agrees the internal audit plan in December for the following year. The plan provides broad coverage of the business activities and includes reviews in each of the countries together with the key corporate functions in the UK. The committee reviews regular reports on the activity of the internal audit function. During 2007, 11 reports were produced and their content was considered by the committee. Each member of the committee receives reports and a summary is included in the EY activity report which is presented at each meeting. As the internal auditors report to the committee, this helps to ensure the function's independence from Group management and ensures that appropriate action is taken in response to audit findings.

3.4 The Group's external auditors are PricewaterhouseCoopers LLP ('PwC'). At the audit committee meeting in September PwC present their audit strategy to enable them to deliver their audit opinion at the end of the forthcoming audit. At the February meeting PwC give a detailed presentation of the results of their audit work. At the July meeting they give a detailed presentation on the results of their half-year review.

3.5 At the invitation of the committee, meetings are attended by both the internal and external auditors as required and by the Finance Director and the director of group accounting. In 2007 the Finance Director attended both meetings. The committee has a session at each meeting with the internal and external auditors without an executive director or member of the Company's senior management being present.

3.6 The committee is conscious of the need to ensure that the external auditors are, and are perceived to be, independent and its work relating to this is summarised in paragraphs 3.6.1 to 3.6.4 below:

3.6.1 The committee has adopted a policy on the appointment of staff from the auditors to positions within the various Group finance departments. This prevents key members of the audit engagement team from being employed as Finance Director or director of group accounting;

3.6.2 The committee has adopted a policy on the use of the external auditors for non-audit work. The award of non-audit work to the auditors is managed in order to ensure that the auditors are able to conduct an independent audit and are perceived to be independent by the Group's shareholders and stakeholders. The performance of non-audit work by the Group's auditors should be minimised and work should be awarded only when, by virtue of their knowledge, skills or experience, the auditors are clearly to be preferred over alternative suppliers. The Group should maintain an active

Corporate governance report continued

relationship with at least two other professional accounting advisers. No information technology, remuneration, recruitment, valuation or general consultancy work may be awarded to the auditors without the prior approval of the Chairman of the audit and risk committee, such approval to be given only in exceptional circumstances. The Chairman of the audit and risk committee must approve in advance any single award of non-audit work with an aggregate cost of £125,000 or more. The auditors may not perform internal audit work;

3.6.3 Since the demerger date, the committee has kept under review the non-audit work carried out by PwC. Fees paid to PwC in 2007 are set out on page 65 in note 4 of the notes to the financial statements; and

3.6.4 PwC provide a letter of independence for the committee to consider at least once a year.

4. Report on the nomination committee

4.1 From the demerger date to 31 December 2007, this committee consisted of Charles Gregson, Tony Hales, John Harnett, Ray Miles and Nick Page under the chairmanship of Christopher Rodrigues.

4.2 Its remit is to assist the board in the process of the selection and appointment of any new director. It keeps under review the structure, size and composition of the board. It considers and, if appropriate, recommends to the board the appointment of any new director. It considers the succession plan annually and reports to the board that it has done so.

4.3 In December 2007 the committee considered the size, structure and composition of the board and determined it continued to be appropriate for there to be an Executive Chairman and a Chief Operating Officer.

4.4 It should be noted that the appointments to the board made at the time of the demerger were considered by the nomination committee of Provident Financial plc prior to the demerger date. An external search consultancy was used for this purpose.

5. Report on the remuneration committee

Full details of the composition and work of the remuneration committee are contained on page 50 in paragraph 2 of the directors' remuneration report. Details of the Company's equity incentive schemes are set out on pages 50 and 51 in paragraphs 3.9 to 3.13 of the directors' remuneration report.

6. Report on the executive committee

6.1 From the demerger date to 31 December 2007, this committee consisted of David Broadbent and John Harnett under the chairmanship of Christopher Rodrigues.

6.2 The committee deals with matters relating to the running of the Group, other than those matters reserved to the board and those specifically assigned to the other committees. There is a formal schedule of matters reserved to it for decision.

7. Report on the disclosure committee

7.1 From the demerger date to 31 December 2007, this committee consisted of David Broadbent and Rosamond Marshall Smith under the chairmanship of John Harnett.

7.2 The Disclosure Committee is responsible for ensuring that the Company's obligations pursuant to the Disclosure and Transparency Rules issued by the Financial Services Authority are carried out and that appropriate policies and procedures are in place.

8. Board and committee attendance

8.1 The table in paragraph 8.2 below shows the attendance at the meetings of the board and committees. Attendance at meetings by directors, other than members, is not shown.

8.2 Board and committee attendance in 2007.

	Board	Audit and risk committee	Nomination committee	Remuneration committee
Total number of meetings	4	2	1	2
Christopher Rodrigues	4	–	1	–
John Harnett	4	–	1	–
David Broadbent	4	–	–	–
Charles Gregson	4	–	1	–
Ray Miles	4	2	1	2
Tony Hales	3	2	1	2
Nick Page	3	2	0	1

9. Internal control

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

9.2 The key elements of the internal control system which have been established (in accordance with the revised Guidance for Directors on the Combined Code) are set out in paragraphs 9.3 to 9.7 below.

9.3 In December each year, the board approves detailed budgets for the year ahead. It also approves outline projections for the subsequent four years. A detailed review takes place at the half year. Actual performance against budgets is monitored in detail regularly and reported monthly for review by the directors.

9.4 The audit and risk committee keeps under review the adequacy of internal financial controls in conjunction with the internal auditors and reports to the board regularly. An annual programme of work which targets and reports on higher risk areas is carried out by the internal auditors. The operation of internal financial controls is monitored by regular management reviews, including a procedure by which operating companies certify compliance quarterly.

9.5 The audit and risk committee also considers the nature and extent of the risks facing the Group, keeps them under review, reviews the framework to mitigate such risks, and notifies the board of changes in the status and control of risks. It reports to the board on a regular basis. In addition, the risk advisory group (consisting of the executive directors, the director of group accounting and the Company Secretary) formally reviews internal risk assessments from each subsidiary twice a year and directs reviews of internal controls and of particular areas of risk. It reports to the audit and risk committee.

9.6 The board requires its subsidiaries to operate in accordance with corporate policies.

9.7 In accordance with the Turnbull guidance (2005), the board has reviewed the effectiveness of the Group's framework of internal controls (including financial, operational and compliance controls and risk management systems) since the demerger date. The process for identifying, evaluating and managing the significant risks faced by the Company, as set out above, was in place throughout the period from the demerger date and up to 21 March 2008. The board will also, whenever appropriate, ensure that necessary actions have been or are being taken, to remedy significant failings or weaknesses identified from the review of the effectiveness of internal control.

10. Relations with shareholders

10.1 The executive directors meet with institutional shareholders on a regular basis. The Chairman is responsible for ensuring that appropriate channels of communication are established between the executive directors and shareholders and ensuring that the views of the shareholders are made known to the entire board. An investor relations report is considered by the board regularly and independent reviews of shareholder views are commissioned.

10.2 The Company will give shareholders 20 working days' notice of the AGM. The Company has not yet held an AGM but it will be its policy that the chairmen of each of the board committees will be available to answer questions from shareholders and there will be an opportunity for shareholders to ask questions on each resolution proposed. Details of proxy votes cast will be made available to shareholders and other interested parties by means of an announcement to the London Stock Exchange and by the Company's website.

10.3 The board presents the Company's position and prospects in as clear a way as possible. The annual report and circulars will be posted on the Company's website. Announcements made by the Company to the London Stock Exchange are also posted on the Company's website (www.ipfin.co.uk).

11. Directors' responsibilities in relation to the financial statements

11.1 The following statement, which should be read in conjunction with the independent auditors' report on page 55, is made to distinguish for shareholders the respective responsibilities of the directors and the auditors in relation to the financial statements.

11.2 The directors are required to prepare the financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. They are also required to ensure that the financial statements comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. Such financial statements should present fairly for each financial year the financial position, financial performance and cash flows of the Group and the Company.

11.3 The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect material fraud and other irregularities.

11.4 This document (the Annual Report and Financial Statements 2007) will be published on the Company's website (in addition to the normal paper version). The maintenance and integrity of the International Personal Finance website is the responsibility of the directors and the work carried out by the auditors does not involve consideration of these matters.

11.5 Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

12. Responsibility statement

12.1 In accordance with Rule 4.1.12 of the Disclosure and Transparency Rules, the following responsibility statement is given by each of the directors: namely Christopher Rodrigues, Executive Chairman; John Harnett, Chief Operating Officer; David Broadbent, Finance Director; Charles Gregson, non-executive director; Tony Hales, non-executive director; Ray Miles, non-executive director; and Nick Page, non-executive director.

12.2 To the best of each director's knowledge, the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and the directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

13. Statement of compliance with the Combined Code

13.1 The Company complied with all the provisions in Section 1 of the Combined Code from the demerger date to 31 December 2007 with the following exceptions.

13.2 The Company has a Chairman who carries out, in part, Chief Executive responsibilities for the reason specified in paragraph 2.1 above.

13.3 The International Personal Finance plc Incentive Plan provides a one-off (rather than phased) incentive to the senior executive team in the three-year period following demerger. This is designed to incentivise them to achieve the Company's ambitious plans and strategic targets during this critical period in the development of the Company.

Directors' remuneration report

1. Introduction

1.1 This is the directors' remuneration report of International Personal Finance plc ('the Company') which has been prepared pursuant to, and in accordance with, section 234B of the Companies Act 1985 ('the Companies Act'). In accordance with section 241 of the Companies Act, a resolution to approve this report will be proposed at the annual general meeting ('AGM') of the Company to be held on 14 May 2008.

1.2 The Company became the holding company of the international businesses of Provident Financial plc ('PF') which were demerged from PF on 16 July 2007 ('the demerger date'). On that date the issued share capital of the Company was both admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's main market for listed securities.

2. The remuneration committee

2.1 The remuneration committee was established with effect from the demerger date. From the demerger date until 31 December 2007, the remuneration committee ('the committee') consisted of Tony Hales and Nick Page under the chairmanship of Ray Miles. The committee met twice during this period. Attendance details are set out on page 48 in paragraph 8.2 of the corporate governance report.

2.2 Pursuant to its terms of reference, the committee considers the framework of executive remuneration and makes recommendations to the board. It determines the specific remuneration packages and conditions of service of the Chairman, the executive directors and the Company Secretary, including their service agreements. It also monitors the level and structure of the remuneration of the most senior management below board level within the Group. No director is involved in determining his own remuneration.

2.3 The committee has appointed Kepler Associates ('Kepler') as remuneration consultant. Kepler is independent and does not provide any other services to the Group. The Chairman of the Company normally attends and speaks at meetings of the committee (other than when his own remuneration or any matter relating to him is being considered). The Company Secretary, Rosamond Marshall Smith, is secretary to the committee and attended the meetings of the committee in 2007; as a solicitor she provides legal and technical support to the committee.

3. Statement of the Company's policy on directors' remuneration

Remuneration policy

3.1 The remuneration policy applied by the committee is based on the need to attract, reward, motivate and retain executive directors to enable the Company to achieve its plans. The committee is also conscious of the need to avoid paying more than is reasonable for this purpose and therefore the policy of the committee is to pay remuneration at market levels, with a significant proportion subject to performance. The remuneration policy is designed to ensure that a significant proportion of the executive directors' remuneration is linked to performance, through the operation of the annual cash bonus and the long-term incentive plan.

3.2 The Chairman's remuneration consists of a basic salary, pensions allowance and other benefits. He participates in a long-term incentive plan.

3.3 The executive directors' remuneration consists of a basic salary, an annual cash bonus (subject to performance conditions) and other benefits. They also benefit from pension arrangements and participate in a long-term incentive plan.

3.4 The committee normally reviews the executive directors' remuneration annually. With effect from 1 January 2008, the Chief Operating Officer's basic salary was increased by 5% and the Finance Director's salary was increased by 12.5%.

3.5 The fees for the non-executive directors are fixed by the board and are designed both to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the Company's plans. Their business expenses are reimbursed by the Company.

Cash bonuses

3.6 An annual cash bonus is payable to the Chief Operating Officer and the Finance Director, subject to satisfaction of performance conditions which include, where applicable, appropriate environmental, social and governance matters. The bonus is calculated as a percentage of salary but cannot exceed 100% of gross salary paid in the relevant period. For the second half of 2007, the executive directors were eligible for a bonus by reference to budgeted earnings per share and personal objectives. For 2008 the executive directors are eligible for a bonus by reference to post-tax profit and personal objectives. The Chairman does not participate in a bonus scheme.

3.7 Bonuses do not form part of pensionable earnings.

Other benefits

3.8 The Chairman and the executive directors are provided with company-leased cars and fuel (or a cash alternative), long-term disability cover under the Company's permanent health policy and medical cover for them and their immediate families. Benefits in kind are not pensionable.

Equity incentive schemes

3.9 The Company currently operates three equity incentive schemes for directors and senior managers. These are the International Personal Finance plc Incentive Plan ('the Incentive Plan'), the International Personal Finance plc Performance Share Plan ('the Performance Share Plan') and the International Personal Finance plc Exchange Share Scheme 2007 ('the Exchange Scheme'). These plans were put in place shortly before the demerger date and were individually approved by the shareholders of PF on 13 July 2007 at the extraordinary general meeting held to approve the demerger.

The Incentive Plan

3.10 Awards under the Incentive Plan were granted to the Chairman, the executive directors and certain senior executives following the demerger date. The Incentive Plan provides a one-off incentive to the senior executive team (15 people) in the period following demerger. If an absolute total shareholder return ('TSR') growth target of 30% is achieved over a three-year performance period, starting from the demerger date, and employment conditions are met, awards under the Incentive Plan will enable participants, according to their seniority, to share in a pool of up to 3% of the total growth in value ('the earned value pool') delivered to shareholders. The committee believes that absolute TSR is a simple and objective measure of shareholder value creation, given the lack of comparable companies. All benefits under the Incentive Plan will be delivered in shares, with 50% delivered shortly after the end of the performance period and delivery of the further 50% deferred for a further 12 months.

The Performance Share Plan

3.11 Contingent awards of shares were made under the Performance Share Plan following the demerger date to key senior managers (about 50 people) who did not participate in the Incentive Plan. The awards will vest after a three-year performance period, starting from the demerger date, with vesting determined by a range of TSR growth targets and by employment conditions. TSR is calculated on the same basis as for the Incentive Plan. No award will vest if there is less than 30% growth in TSR. 50% of the award will vest at 30% growth in TSR and 100% will vest at 60% growth in TSR. If growth in TSR is between 30% and 60%, vesting will be on a straight-line basis. 50% of vested awards will be released after the end of the performance period, with 50% deferred for an additional 12 months. No awards to directors have been made under this Plan.

The Exchange Scheme

3.12 Awards were made following the demerger date to the 57 executive directors and other Group senior managers who held options under the Provident Financial Executive Share Option Scheme 2006, which lapsed at the demerger date, and awards under the Provident Financial Long Term Incentive Scheme 2007 which were cancelled, in return for the grant of new equivalent awards under the Exchange Scheme. These options/awards under the PF Schemes were valued as at 30 June 2007 and awards were made in the form of contingent rights to acquire shares with an equivalent value for £nil consideration, which would normally vest on the third anniversary of the date of grant of the original award. The remuneration committee of PF determined this to be the most appropriate approach in all the circumstances. No further awards will be made under the Exchange Scheme.

Sharesave Scheme

3.13 The Company has adopted a sharesave scheme, the International Personal Finance plc Employee Savings-Related Share Option Scheme, which has been approved by HM Revenue and Customs. Although invitations have been sent to eligible employees, no options have yet been granted under this scheme.

Service agreements

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

Other directorships

3.15 The Company will normally permit a full-time executive director to hold one non-executive directorship and to retain the fee from that appointment, subject to the prior approval of the board.

Senior management remuneration

3.16 The committee considers the structure and level of pay for the most senior level of management within the Group below board level. Their current salaries are as follows:

Salary band £	Number of employees
100,000-130,000	4
130,001-160,000	6
160,001-190,000	1
190,001-220,000	3
220,001-250,000	1
Total	15

Changes to the remuneration policy

3.17 The remuneration policy is normally reviewed once a year and is scheduled to be reviewed again in December 2008.

Detailed information

3.18 Full details of salaries, bonus earnings and other benefits for 2007 for the Chairman and executive directors, and details of the fees for the non-executive directors, are set out in the table of directors' remuneration in paragraph 4 below. Details of awards under the Incentive Plan are set out in paragraph 5 below. Details of awards under the Exchange Scheme are set out in paragraph 6 below.

Directors' remuneration report continued

4. Directors' remuneration

4.1 The directors' remuneration for 2007 is as follows:

Director's name	Salary £000	Bonus £000	Benefits £000	Fees £000	2007 Total £000
Christopher Rodrigues	178	–	12	–	**190**
John Harnett	165	179	12	–	**356**
David Broadbent	93	100	6	–	**199**
Charles Gregson	–	–	–	21	**21**
Tony Hales	–	–	–	21	**21**
Ray Miles	–	–	–	56	**56**
Nick Page	–	–	–	28	**28**
Total	436	279	30	126	**871**

4.2 Remuneration from the Company for each director is stated as from date of appointment. All the directors were appointed with effect from 16 July 2007 other than John Harnett who was appointed on 2 January 2007 and David Broadbent who was appointed on 30 March 2007. Neither John Harnett nor David Broadbent received any remuneration from the Company prior to 16 July 2007.

4.3 John Harnett was awarded a bonus of £357,000 for 2007, equivalent to 100% of his basic salary. Half of this, relating to the second half of 2007, was paid by the Company; the other half was paid by PF.

4.4 David Broadbent was awarded a bonus of £100,000 in respect of the second half of 2007 (100% of the gross salary payable in respect of the period).

4.5 In addition to his basic salary, Christopher Rodrigues receives a pensions allowance and details of this are set out in paragraph 7.4 below.

5. Long-term incentive plan

5.1 Awards were granted under the Incentive Plan as follows:

Director's name	Date of award	Award held at 31.12.2007	Market price of shares at date of grant (p)	Performance condition period
Christopher Rodrigues	20.07.2007	0.8% of the earned value pool	250	16.07.2007 -15.07.2010
John Harnett	20.07.2007	0.6% of the earned value pool	250	16.07.2007 -15.07.2010
David Broadbent	20.07.2007	0.4% of the earned value pool	250	16.07.2007 -15.07.2010

5.2 The awards make available to participants a percentage of the earned value pool (as defined in paragraph 3.10 above) at the end of the performance condition period. The total pool may be up to 3% of the total return to shareholders in the performance condition period. For this purpose, the total return to shareholders will be calculated as the absolute TSR growth of the total issued share capital of the Company at the demerger date expressed as a monetary amount. No awards will vest if TSR is less than 30%.

5.3 Awards will be satisfied in shares. For the purposes of the Incentive Plan, the starting point is the average value of the issued share capital over the month following demerger which was 226p per share.

5.4 No awards were outstanding at the date the directors were appointed in 2007.

5.5 There were no changes in the interests of the directors between 1 January and 21 March 2008.

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

6. The Exchange Scheme

6.1 Awards were granted under the Exchange Scheme as follows:

Director's name	Date of award	Total awards held at 31.12.2007	Market price at date of grant (p)	Normal vesting date
John Harnett	20.07.2007	81,278	250	01.06.2009
		23,556	250	07.06.2009
David Broadbent	20.07.2007	8,036	250	07.06.2009

6.2 The awards are contingent rights to acquire shares for £nil consideration. There are no performance conditions other than those related to continued employment.

6.3 No awards were outstanding at the date the directors were appointed in 2007.

6.4 There were no changes in the interests of the directors between 1 January and 21 March 2008.

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

7. Pensions and life assurance

7.1 In order to provide continuity of benefits for directors and employees, the Company has set up two pension schemes which broadly mirror those operated by PF. These are the International Personal Finance plc Pension Scheme ('the Pension Scheme') and the International Personal Finance Stakeholder Pension Scheme ('the Stakeholder Scheme'). Employees who join the Company and its UK subsidiaries are eligible to join the Stakeholder Scheme.

7.2 The Pension Scheme is a defined benefit scheme with two sections: cash balance and final salary. The cash balance section provides members with a pension credit calculated as a percentage of basic salary in a retirement account. Currently the pension credit increases each year by the lower of the increase in RPI plus 1.5%, and 6.5%. At retirement, up to 25% of the total value of the director's retirement account can be taken as a lump sum, with the balance used to purchase an annuity. If the director dies in service, a death benefit of five times salary plus the value of the retirement account is payable. The final salary section provides a pension of up to two-thirds of basic salary at the normal retirement date at age 65.

7.3 David Broadbent is the only director for whom retirement benefits are accruing under the Pension Scheme. He was a member of the final salary section until 1 April 2006 when he began to accrue benefits as a member of the cash balance section.

7.4 Christopher Rodrigues receives a pensions allowance of £115,000 and life assurance benefit of £2,000,000.

7.5 John Harnett has a defined contribution personal pension arrangement. He has life assurance benefit of four times salary at date of death. The Company contributes 30% of his basic salary to his pension arrangements. The Company's contributions in respect of John Harnett during 2007 (including the cost of the life insurance) amounted to £54,288.

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

Final salary	£
Accrued pension at 31 December 2007	12,060
Accrued pension at 30 March 2007	11,610
Increase in accrued pension during the year (net of inflation)	0*
Transfer value of net increase in accrual over period	0
Transfer value of accrued pension at 31 December 2007	72,430
Transfer value of accrued pension at 30 March 2007	59,870
Total change in transfer value during the period (net of director's contributions)	12,560
Director's contributions in 2007	0

*Net of the increase in the Retail Prices Index.

Cash balance	£
Accrued cash balance lump sum at 31 December 2007	61,750
Accrued cash balance lump sum at 30 March 2007	29,675
Increase in cash balance lump sum during the year (net of inflation)	30,925
Transfer value at 31 December 2007	61,750
Transfer value at 30 March 2007	29,675
Total change in transfer value during the period (net of director's contributions)	25,805
Director's contributions in 2007	6,270
Cost of life insurance	713

7.7 David Broadbent was age 39 at the end of the year. He became a director of the Company on 30 March 2007.

8. Directors' service agreements

8.1 As the forthcoming AGM will be the first, all the directors will be offering themselves for election.

8.2 Each of the service agreements and letters of appointment referred to in paragraphs 8.3 to 8.5 below was entered into prior to the demerger date, conditionally on the demerger becoming effective.

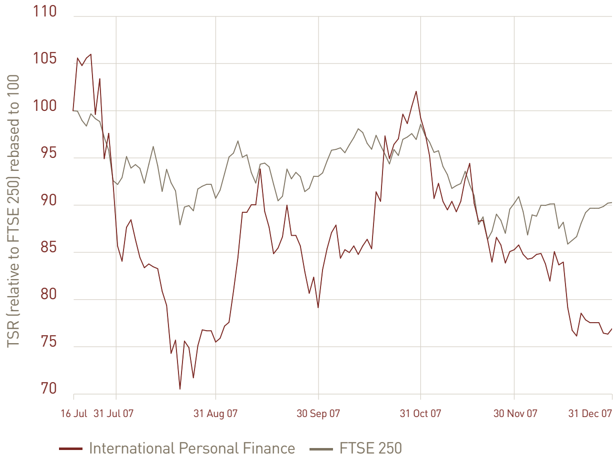
8.3 Christopher Rodrigues has a letter of appointment with the Company dated 19 June 2007, terminable on one year's notice from him or the Company. There are no provisions for compensation payable on early termination.

8.4 John Harnett has a service agreement dated 19 June 2007. David Broadbent has a service agreement dated 21 June 2007. Each of these service agreements is terminable upon one year's notice from the relevant director or the Company and will automatically terminate when the relevant director reaches normal retirement age (65). There are no provisions for compensation payable on early termination. However, in the event that a director is not re-elected at an AGM of the Company, the agreement is automatically terminated and this is treated as a breach by the Company.

8.5 Each of the non-executive directors has a letter of appointment dated 19 June 2007. Each director has been appointed for three years (until 30 June 2010), subject to election by shareholders. The initial three-year period may be extended.

9. Performance graph

The graph below compares the total shareholder return (TSR) for the Company with the companies comprising the FTSE 250 Index. This index was chosen for comparison because the Company is a member of this index and has been since the demerger date.



10. Audit

The elements of the directors' remuneration (including pension entitlements and share incentives) set out in paragraphs 4 to 7 which are required to be audited have been audited in accordance with the Companies Act.

Approved by the Board on 31 March 2008.

Rosamond J Marshall Smith
General Counsel and Company Secretary

31 March 2008

Financial statements

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 2007 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 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 on pages 87 to 91 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 (IFRS) are set out in the statement of directors' responsibilities on page 49.

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. The information given in the directors' report includes that specific information presented in the business review that is cross referred from the review of the business section of the directors' report.

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 only the directors' report, the unaudited part of the directors' remuneration report, the Executive Chairman and Chief Operating Officer's review, the business review, the financial review and the corporate governance 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 consolidated 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 2007 and of its profit and cash flows for the year then ended;
- the 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 2007 and cash flows for the period 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

31 March 2008

Consolidated income statement

for the year ended 31 December

	Notes	2007 £m	2006 £m
Revenue*	1	409.8	365.3
Impairment	1	(83.2)	(103.1)
Revenue less impairment		326.6	262.2
Finance costs	2	(22.3)	(24.0)
Other operating costs		(81.6)	(58.2)
Administrative expenses		(175.7)	(145.4)
Total costs		(279.6)	(227.6)
Profit before taxation	1, 3	47.0	34.6
Profit before taxation and exceptional demerger costs	1	49.8	38.8
Exceptional demerger costs	3	(2.8)	(4.2)
Profit before taxation	1	47.0	34.6
Tax expense – UK		(1.9)	4.6
– overseas		(12.6)	(16.2)
Total tax expense	5	(14.5)	(11.6)
Profit after taxation attributable to equity shareholders	27	32.5	23.0

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

	Notes	2007 pence	2006 pence
Earnings per share			
Basic	6	12.64	8.94
Diluted	6	12.62	8.93

	Notes	2007 pence	2006 pence
Dividend per share			
Interim dividend	7	1.90	–
Final proposed dividend	7	2.85	–
		4.75	–

	Notes	2007 £m	2006 £m
Dividends paid			
Interim dividend of 1.90 pence per share	7	4.9	–
Final proposed dividend of 2.85 pence per share	7	–	–
		4.9	–

The accounting policies and notes on pages 60 to 86 are an integral part of these consolidated financial statements.

Statements of recognised income and expense

for the year/period ended 31 December

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m
Profit/(loss) after taxation attributable to equity shareholders		**32.5**	23.0	**(2.8)**
Exchange gains/(losses) on foreign currency translations	27	**21.1**	(0.2)	**–**
Net fair value gains – cash flow hedges	27	**1.4**	1.8	**–**
Actuarial losses on retirement benefit asset	24/27	**(2.0)**	–	**(0.4)**
Tax credit/(charge) on items taken directly to equity	27	**0.1**	(0.6)	**0.1**
Net income/(expense) recognised directly in equity	27	**20.6**	1.0	**(0.3)**
Total recognised income/(expense) for the year/period	27	**53.1**	24.0	**(3.1)**

The accounting policies and notes on pages 60 to 86 are an integral part of these consolidated financial statements.

The Group has presented unaudited pro forma income statements and unaudited pro forma earnings per share for the years ended 31 December 2007 and 31 December 2006 and an unaudited pro forma balance sheet as at 31 December 2006 in notes 32 to 34 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 standalone entity throughout the periods shown.

Balance sheets

as at 31 December

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m
Assets				
Non-current assets				
Intangible assets	11	**18.7**	14.0	**–**
Investment in subsidiaries	12	**–**	–	**664.0**
Property, plant and equipment	13	**40.8**	30.2	**–**
Retirement benefit asset	24	**1.7**	–	**0.4**
Deferred tax assets	14	**27.8**	15.7	**–**
		89.0	59.9	**664.4**
Current assets				
Amounts receivable from customers:				
– due within one year		**422.7**	312.4	**–**
– due in more than one year		**20.5**	18.6	**–**
	15	**443.2**	331.0	**–**
Derivative financial instruments	20	**0.7**	0.6	**–**
Cash and cash equivalents	16	**88.8**	44.5	**6.4**
Amounts due from Provident Financial plc		**–**	78.3	**–**
Trade and other receivables	17	**9.0**	6.5	**86.0**
		541.7	460.9	**92.4**
Total assets		**630.7**	520.8	**756.8**
Liabilities				
Current liabilities				
Bank borrowings	19	**(8.8)**	(218.4)	**–**
Derivative financial instruments	20	**(0.7)**	(2.3)	**(0.2)**
Deferred tax liabilities	14	**–**	–	**(0.1)**
Trade and other payables	18	**(50.6)**	(35.0)	**(52.9)**
Current tax liabilities		**(5.0)**	(13.6)	**–**
		(65.1)	(269.3)	**(53.2)**
Non-current liabilities				
Bank borrowings	19	**(362.0)**	(169.6)	**(47.1)**
		(362.0)	(169.6)	**(47.1)**
Total liabilities		**(427.1)**	(438.9)	**(100.3)**
Net assets		**203.6**	81.9	**656.5**
Shareholders' equity				
Called-up share capital	27	**25.7**	3.2	**25.7**
Other reserve	27	**(22.5)**	–	**226.3**
Foreign exchange reserve	27	**27.5**	6.4	**–**
Hedging reserve	27	**0.3**	(0.7)	**–**
Retained earnings	27	**172.6**	73.0	**404.5**
Total equity	27	**203.6**	81.9	**656.5**

The accounting policies and notes on pages 60 to 86 are an integral part of these consolidated financial statements.

The financial statements on pages 56 to 91 were approved by the board of directors on 31 March 2008 and were signed on its behalf by:

John A Harnett
Chief Operating Officer

David E S Broadbent
Finance Director

Cash flow statements

for the year/period ended 31 December

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m
Cash flows from operating activities				
Cash generated from/(used in) operations	28	**45.1**	65.8	**(35.1)**
Finance costs paid		**(22.4)**	(24.1)	**(1.7)**
Finance income received		**–**	–	**1.0**
Tax paid		**(29.7)**	(19.1)	**–**
Net cash (used in)/generated from operating activities		**(7.0)**	22.6	**(35.8)**
Cash flows from investing activities				
Purchases of property, plant and equipment	13	**(22.7)**	(17.4)	**–**
Proceeds from sale of property, plant and equipment		**5.9**	3.4	**–**
Purchases of intangible assets	11	**(5.1)**	(12.1)	**–**
Acquisition of subsidiary (net of cash acquired)	10	**(2.4)**	–	**–**
Net cash used in investing activities		**(24.3)**	(26.1)	**–**
Cash flows from financing activities				
(Repayment of)/proceeds from external bank borrowings		**(70.4)**	4.7	**47.1**
Net movement in funding from Provident Financial plc		**78.3**	(4.0)	**–**
Capital contribution from Provident Financial plc		**70.0**	–	**–**
Dividends paid to Company shareholders	7	**(4.9)**	–	**(4.9)**
Net cash generated from financing activities		**73.0**	0.7	**42.2**
Net increase/(decrease) in cash and cash equivalents		**41.7**	(2.8)	**6.4**
Cash and cash equivalents at beginning of year		**44.5**	47.1	**–**
Exchange gains on cash and cash equivalents		**2.6**	0.2	**–**
Cash and cash equivalents at end of year	16	**88.8**	44.5	**6.4**

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m
Cash and cash equivalents at end of year comprise:				
Cash at bank and in hand		**48.9**	22.8	**0.4**
Short-term deposits		**39.9**	21.7	**6.0**
	16	**88.8**	44.5	**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 2007 such cash and short-term deposits held by these companies amounted to £36.8m (2006: £21.4m).

The accounting policies and notes on pages 60 to 86 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.

IFRS 7 'Financial instruments: Disclosures' and the amendment to IAS 1 'Presentation of financial statements – Capital disclosures' have been adopted during 2007. This has resulted in the inclusion of additional disclosures in respect of financial instruments.

The following interpretations were adopted in 2007 with no impact on the financial statements:

IFRIC 7 'Applying the restatement approach under IAS 29 Financial reporting in hyper-inflationary economies'

IFRIC 9 'Re-assessment of embedded derivatives'

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'

IFRIC 12 'Service Concession Arrangements'

IFRIC 13 'Customer Loyalty Programmes'

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

IFRS 3 (Revised) 'Business Combinations'

IAS 23 (Revised) 'Borrowing Costs'

IAS 27 (Revised) 'Consolidated and Separate Financial Statements'

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

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

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

Demerger
International Personal Finance plc (formerly Bridgesun (3) Limited) was incorporated on 5 December 2006. On 24 May 2007, the Company was re-registered as a public limited company and changed its name to International Personal Finance plc (IPF plc). 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. On 18 July 2007 the court approved a reduction of the share capital and this was registered by the Registrar of Companies on 19 July 2007. This resulted in a transfer from share capital to distributable reserves (see note 27). These financial statements have been prepared in accordance with the principles of reverse acquisition accounting as set out in IFRS 3 'Business Combinations'. The following summarises the accounting principles that have been applied in preparing the accounts on a reverse acquisition basis:

- the assets and liabilities of the legal subsidiaries (the international businesses) are recognised and measured in the consolidated financial statements at the pre-demerger carrying amounts, without restatement to fair value;
- the retained earnings and other equity balances recognised in the consolidated financial statements reflect the retained earnings and other equity balances of the international businesses immediately before the demerger, and the result of the period from 1 January 2006 to the date of demerger is that of the international businesses as IPF plc did not trade prior to the demerger;
- share capital at 31 December 2006 represents that of the holding company of the international businesses pre-demerger. Share capital at 31 December 2007 represents that of the legal parent, IPF plc; the difference between the share capital of IPF plc and the share capital of the pre-demerger holding company of the international businesses has been debited to the 'other' reserve (see note 27);
- comparative numbers presented in the consolidated financial statements are the consolidated numbers of the international businesses for the year ended 31 December 2006.

IPF plc had no significant assets, liabilities or contingent liabilities of its own at the date the demerger took effect and no cash consideration was paid in respect of the acquisition of the international businesses by IPF plc.

Unaudited pro forma income statements and earnings per share and a pro forma balance sheet have been presented in notes 32 to 34 to the financial statements in order to present a consolidated position as if the Group had existed as a standalone entity in its current form. This includes the restatement of share capital and reserves on a pro forma basis and the inclusion of certain costs now incurred by the Group which were historically not recharged to the international businesses by Provident Financial plc. Further information in respect of these adjustments is included in notes 32 to 34. The pro forma adjustments are consistent with those items specified in the demerger prospectus. Full details of the demerger are given in the prospectus which can be found on the Company's website (www.ipfin.co.uk).

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 throughout 2007 and 2006, are set out below.

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 12.

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 (service charge) earned on amounts receivable from customers. Revenue on customer receivables is calculated using an effective interest rate (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 and foreign exchange gains and losses. All other costs are included in administrative expenses.

Share-based payments
The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the award. The corresponding credit is made to profit and loss reserves. The cost is based on the fair value of awards granted, determined using a Monte Carlo simulation option pricing model.

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. These 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 risk arising from the Group's underlying business operations. No transactions of a speculative nature are undertaken.

Accounting policies continued

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 finance costs. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

The Group discontinues hedge accounting when:

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

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

Intangible assets
Intangible assets comprise computer software licences and a banking licence in Russia. Computer software licences are capitalised as intangible assets 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
Investment 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.

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 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/liability 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.

Defined contribution plans

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

Key assumptions and estimates

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

Amounts receivable from customers

The Group reviews its portfolio of customer loans and receivables for impairment every week. The Group makes judgements to determine whether there is objective evidence which indicates 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. The impairment models are regularly reviewed to take account of the current economic environment, product mix 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 the amounts receivable from customers' balance would be £22.2m higher/lower.

Retirement benefit asset

A number of judgements and estimates are made in assessing the amount of the retirement benefit asset at each balance sheet date. These judgements and estimates are derived after taking into account the requirements of IAS 19 'Retirement Benefit Obligations' and after taking the advice of the Group's actuaries. Further details on the key assumptions used are set out in note 24.

Tax

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

Notes to the financial statements

1. Segment analysis

Primary reporting format – geographical segments

	Revenue		Impairment		Profit before taxation	
Group	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Central Europe	**367.1**	338.6	**64.3**	90.6	**79.3**	59.2
UK – central costs	**–**	–	**–**	–	**(11.6)**	(8.3)
Established businesses	**367.1**	338.6	**64.3**	90.6	**67.7**	50.9
Mexico	**38.8**	26.4	**18.4**	12.5	**(13.2)**	(9.7)
Romania	**3.9**	0.3	**0.5**	–	**(4.2)**	(2.4)
Russia	**–**	–	**–**	–	**(0.5)**	–
Total before exceptional demerger costs	**409.8**	365.3	**83.2**	103.1	**49.8**	38.8
Exceptional demerger costs (note 3)	**–**	–	**–**	–	**(2.8)**	(4.2)
Total	**409.8**	365.3	**83.2**	103.1	**47.0**	34.6

	Segment assets		Segment liabilities	
Group	2007 £m	2006 £m	2007 £m	2006 £m
Central Europe	**512.1**	378.7	**356.8**	265.8
Mexico	**39.3**	26.7	**37.5**	27.3
Romania	**9.7**	2.4	**16.0**	2.0
Russia	**1.2**	–	**0.2**	–
UK	**68.4**	34.7	**16.6**	65.5
Total	**630.7**	442.5	**427.1**	360.6

In 2006 the amounts due from Provident Financial plc of £78.3m have been included as a positive balance within segment liabilities as these amounts were used to repay borrowings.

	Capital expenditure		Depreciation	
Group	2007 £m	2006 £m	2007 £m	2006 £m
Central Europe	**14.9**	11.4	**6.7**	5.9
Mexico	**1.0**	2.7	**0.9**	0.6
Romania	**1.4**	–	**0.3**	–
UK	**5.4**	3.3	**1.7**	0.7
Total	**22.7**	17.4	**9.6**	7.2

Expenditure on intangible assets of £5.1m (2006: £12.1m) and amortisation of £3.4m (2006: £nil) 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	2007 £m	2006 £m
Interest payable on bank borrowings	**22.3**	24.0

3. Profit before taxation

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

	2007 £m	2006 £m
Depreciation of property, plant and equipment (note 13)	9.6	7.2
Profit on disposal of property, plant and equipment	(0.2)	(0.2)
Amortisation of intangible assets (note 11)	3.4	–
Operating lease rentals:		
– property	9.9	7.4
– equipment	0.5	0.1
Share-based payment charge/(credit) (note 25)	1.1	(0.4)
Defined benefit pension scheme credit (note 24)	(0.1)	–
Exceptional demerger costs:		
– IT separation costs	2.3	2.9
– property costs	–	0.9
– defined benefit pension credit	(3.5)	–
– accelerated share-based payment charge	2.4	–
– other	1.6	0.4
Total exceptional demerger costs	2.8	4.2

4. Auditors' remuneration

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

	2007 £m	2006 £m
Audit services:		
– fees payable to the Company auditors for the audit of the Parent Company and consolidated financial statements	0.1	–
Non-audit services:		
– audit of Company's subsidiaries pursuant to legislation	0.2	0.2
– tax services	0.1	0.1
– other services	0.1	–

Amounts payable to the Group's auditors in respect of work performed on the demerger were borne by Provident Financial plc.

5. Tax expense

	2007 £m	2006 £m
Total current tax	23.3	16.4
Total deferred tax (note 14)	(8.8)	(4.8)
Tax expense	14.5	11.6

The tax credit in respect of exceptional demerger costs was £0.4m (2006: £0.9m).

	2007 £m	2006 £m
Tax (credit)/charge on items taken directly to equity		
Deferred tax charge on net fair value gains – cash flow hedges	0.4	0.6
Deferred tax credit on actuarial losses on retirement benefit asset	(0.5)	–
	(0.1)	0.6

Notes to the financial statements continued

5. Tax expense continued

The rate of tax expense on the profit before taxation for the year ended 31 December 2007 is higher than (2006: higher than) the standard rate of corporation tax in the UK (30%). The differences are explained as follows:

	2007 £m	2006 £m
Profit before taxation	**47.0**	34.6
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	**14.1**	10.4
Effects of:		
– adjustment in respect of prior years	**(1.0)**	0.5
– adjustment in respect of foreign tax rates	**(4.6)**	(4.4)
– expenses not deductible for tax purposes	**5.0**	4.4
– overseas taxable dividends	**1.0**	0.7
Total tax expense	**14.5**	11.6

As noted on page 30 the Group operates in a number of different countries where tax legislation and practice can vary significantly and the precise tax treatment can often not be agreed until tax audits have been completed by the tax authorities. The Polish business has been subject to a tax audit in respect of the years 2003 and 2004. As at 31 December 2007 this audit process is still ongoing. After taking into account certain indemnities provided by the former parent company the directors of IPF plc believe that the audit will not result in a material unprovided tax liability.

6. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the earnings attributable to equity shareholders of £32.5m (2006: £23.0m) by the weighted average number of IPF ordinary shares in existence of 257.2 million, (2006: number of IPF ordinary shares in existence at date of demerger of 257.2 million).

For diluted EPS, the weighted average number of IPF ordinary shares in issue 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:

	2007 m	2006 m
Used in basic EPS calculation	**257.2**	257.2
Dilutive effect of awards	**0.3**	0.3
Used in diluted EPS calculation	**257.5**	257.5

Basic and diluted earnings per share are presented below:

	2007 pence	2006 pence
Basic EPS	**12.64**	8.94
Dilutive effect of awards	**(0.02)**	(0.01)
Diluted EPS	**12.62**	8.93

A pro forma EPS and a reconciliation to the statutory EPS is presented in note 34.

7. Dividends

	2007 £m	2006 £m
2007 interim dividend paid of 1.90 pence per share	**4.9**	–

The directors are recommending a final dividend in respect of the financial year ended 31 December 2007 of 2.85 pence per share which will amount to a dividend payment of £7.3m. If approved by the shareholders at the annual general meeting, this dividend will be paid on 23 May 2008 to shareholders who are on the register of members at 11 April 2008. This dividend is not reflected as a liability in the balance sheet as at 31 December 2007 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 on pages 6 and 7.

	2007 £m	2006 £m
Short-term employee benefits	3.5	2.0
Post-employment benefits	0.3	0.2
	3.8	2.2

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 paragraphs 4.1 to 4.3 of the directors' remuneration report.

9. Employee information

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

	2007 Number	2006 Number
Full-time	5,157	4,742
Part-time*	4,665	342
	9,822	5,084

*Includes 4,110 agents in Hungary (2006: 364).

Group employment costs – all employees (including directors):

	2007 £m	2006 £m
Gross wages and salaries	81.7	47.5
Social security costs	20.9	13.1
Pension credit – defined benefit schemes (note 24)	(3.6)	–
Pension charge – defined contribution schemes	0.4	0.1
Share-based payment charge/(credit)	3.5	(0.4)
Total	102.9	60.3

10. Acquisition of a subsidiary

On 28 December 2007, one of the Group's subsidiary companies, International Personal Finance Investments Limited, acquired a 99.9% share in OOO Maritime Commercial Bank of Kaliningrad, a bank in Russia. The cash consideration and fair value of net assets acquired are detailed below:

	Group £m
Cost of investment	
Consideration payable	2.8
Directly attributable acquisition costs	0.8
	3.6
Fair value of assets acquired	
Cash	1.2
Intangible asset	3.0
Other net assets	(0.6)
	3.6
Goodwill	–

The fair value of assets acquired was equal to the book value of these assets immediately prior to acquisition other than for the intangible asset. The intangible asset relates to the licence to trade as a bank in Russia. The fair value of this banking licence has been estimated at £3.0m. The acquired entity had materially all of its existing trading activity transferred out of it prior to the purchase. Following acquisition, the bank incurred £nil of expenses and therefore £nil of expenses is included in the Group result. As the bank had materially all of its existing activity transferred out prior to the acquisition, if the acquisition had occurred at the beginning of the period the revenue and profit of the Group would have been unchanged.

Notes to the financial statements continued

11. Intangible assets

	Group 2007 Banking licence £m	2007 Computer software £m	2007 Total £m	2006 Computer software £m
Net book amount				
At 1 January	–	14.0	14.0	1.9
Additions	–	5.1	5.1	12.1
Acquisition of subsidiary (note 10)	3.0	–	3.0	–
Amortisation	–	(3.4)	(3.4)	–
At 31 December	**3.0**	**15.7**	**18.7**	14.0
Analysed as:				
Cost	3.0	19.1	22.1	14.0
Amortisation	–	(3.4)	(3.4)	–
At 31 December	**3.0**	**15.7**	**18.7**	14.0

The costs capitalised as intangible assets in 2006 represent amounts paid to companies within the Provident Financial plc group to acquire the right to use software which had been developed by them. The costs capitalised in 2007 represent £5.1m of further developments made to the software by the IPF Group. In addition a value of £3.0m in respect of the Russian banking licence has also been capitalised (see note 10).

The Company has no intangible assets.

12. Investment in subsidiaries

	Company 2007 £m
Investment in subsidiary	663.6
Share-based payment adjustment	0.4
	664.0

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 £0.4m has been added to the cost of investment representing the fair value of the share-based payment awards made to employees of subsidiary companies of IPF plc since the date of demerger. 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	Provision of services
IPF International Limited	England	Holding company
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
OOO Maritime Commercial Bank of Kaliningrad	Russia	Banking

13. Property, plant and equipment

Equipment and vehicles, fixtures and fittings

	Group 2007 £m	Group 2006 £m
Cost		
At 1 January	**48.8**	39.6
Exchange adjustments	**5.9**	(0.2)
Additions	**22.7**	17.4
Disposals	**(10.8)**	(8.0)
At 31 December	**66.6**	48.8
Depreciation		
At 1 January	**18.6**	16.1
Exchange adjustments	**2.7**	0.1
Charge to the income statement	**9.6**	7.2
Disposals	**(5.1)**	(4.8)
At 31 December	**25.8**	18.6
Net book value at 31 December	**40.8**	30.2

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.

14. Deferred tax

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

	Group 2007 £m	Group 2006 £m	Company 2007 £m
At 1 January (Company: 5 December 2006)	**15.7**	11.8	**–**
Exchange differences	**3.2**	(0.3)	**–**
Credit/(charge) to the income statement	**8.8**	4.8	**(0.2)**
Tax credit/(charge) on items taken directly to equity	**0.1**	(0.6)	**0.1**
At 31 December	**27.8**	15.7	**(0.1)**

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	Total £m
At 1 January 2007 (Company: 5 December 2006)	–	–	15.7	15.7	–	–
Exchange differences	–	–	3.2	3.2	–	–
Credit/(charge) to the income statement	1.3	(0.9)	8.4	8.8	(0.2)	(0.2)
Tax credit/(charge) on items taken directly to equity	–	0.5	(0.4)	0.1	0.1	0.1
At 31 December 2007	**1.3**	**(0.4)**	**26.9**	**27.8**	**(0.1)**	**(0.1)**

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 temporary differences arising on investments in certain overseas subsidiaries because the Company is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future. The Company's policy is to retain profits in such overseas subsidiaries for the foreseeable future. The aggregate temporary differences in respect of which no deferred tax has been provided amounts to £271.6m (2006: £179.1m). The unprovided deferred tax amounts to £26.6m (2006: £16.4m).

Notes to the financial statements continued

15. Amounts receivable from customers

	Group	
	2007 £m	2006 £m
Amounts receivable from customers comprise:		
– amounts due within one year	422.7	312.4
– amounts due in more than one year	20.5	18.6
	443.2	331.0

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:

	2007 £m	2006 £m
Polish zloty	224.6	164.1
Czech crown	79.9	64.6
Hungarian forint	84.9	60.1
Slovak crown	25.6	23.1
Central European currencies	415.0	311.9
Mexican peso	22.9	18.1
Romanian leu	5.3	1.0
	443.2	331.0

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 125% (2006: 128%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 5.4 months (2006: 5.5 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.

Revenue recognised on amounts receivable from customers which have been impaired was £234.6m (2006: £206.7m).

16. Cash and cash equivalents

	Group		Company
	2007 £m	2006 £m	2007 £m
Cash at bank and in hand	48.9	22.8	0.4
Short-term deposits	39.9	21.7	6.0
Total	88.8	44.5	6.4

At 31 December 2007 £24.0m (2006: £21.4m) of the short-term deposits and £0.2m (2006: £nil) 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 their 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. In addition, one company within the Group has an amount of £12.6m (2006: £nil) held as a restricted deposit which cannot be used to finance other parts of the Group or to repay Group borrowings.

16. Cash and cash equivalents continued

The average period to maturity of the short-term deposits is one month (2006: one month). The currency profile of cash and cash equivalents is as follows:

	Group		Company
	2007 £m	2006 £m	2007 £m
Sterling	36.2	13.6	6.3
Polish zloty	28.5	11.4	0.1
Czech crown	11.1	9.9	–
Hungarian forint	6.4	4.1	–
Slovak crown	1.2	1.9	–
Mexican peso	2.8	3.0	–
Romanian leu	1.4	0.6	–
Russian ruble	1.2	–	–
Total	88.8	44.5	6.4

All of the cash and cash equivalents accrue interest at floating rates linked to the relevant national LIBOR. The weighted average fixed interest rate on cash and cash equivalents was 5.36% (2006: 3.57%).

17. Trade and other receivables

	Group		Company
	2007 £m	2006 £m	2007 £m
Trade debtors	0.6	1.2	–
Other debtors	2.6	0.5	–
Prepayments and accrued income	5.8	4.8	0.2
Amounts due from Group undertakings	–	–	85.8
Total	9.0	6.5	86.0

The fair value of trade and other receivables at 31 December 2007 equates to their book value (2006: fair value equated to book value).

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

18. Trade and other payables

	Group		Company
	2007 £m	2006 £m	2007 £m
Trade creditors	4.6	1.6	2.5
Other creditors including taxation and social security	11.0	7.1	0.2
Accruals	35.0	26.3	–
Amounts due to Group undertakings	–	–	50.2
Total	50.6	35.0	52.9

The fair value of trade and other payables at 31 December 2007 equates to their book value (2006: fair value equated to book value).

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

Notes to the financial statements continued

19. 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 2007 borrowings under these facilities amounted to £370.8m (2006: £388.0m). All borrowings are unsecured.

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

	Group 2007 £m	Group 2006 £m	Company 2007 £m
Borrowing facilities available			
Repayable:			
– on demand	**5.0**	1.8	**5.0**
– in less than one year	**29.3**	366.4	**–**
– between one and two years	**–**	110.7	**–**
– between two and five years	**516.9**	142.7	**178.7**
Total	**551.2**	621.6	**183.7**

	Group 2007 £m	Group 2006 £m	Company 2007 £m
Borrowings			
Repayable:			
– in less than one year	**8.8**	218.4	**–**
– between one and two years	**–**	79.5	**–**
– between two and five years	**362.0**	90.1	**47.1**
	362.0	169.6	**47.1**
Total	**370.8**	388.0	**47.1**

The average period to maturity of the Group's committed external bank facilities was 2.2 years (2006: 1.5 years).

The currency exposure on external bank borrowings is as follows:

	Group 2007 £m	Group 2006 £m	Company 2007 £m
Sterling	**15.0**	–	**15.0**
Euro	**2.9**	–	**2.9**
Polish zloty	**167.8**	231.1	**18.2**
Czech crown	**54.3**	48.1	**2.4**
Hungarian forint	**60.1**	54.0	**–**
Slovak crown	**28.2**	29.4	**–**
Mexican peso	**33.9**	25.4	**–**
Romania leu	**8.6**	–	**8.6**
Total	**370.8**	388.0	**47.1**

All of the external bank borrowings held by the Group have floating interest rates.

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

	Group 2007 £m	Group 2006 £m	Company 2007 £m
Expiring within one year	**20.5**	148.0	**–**
Expiring within one to two years	**–**	31.2	**–**
Expiring in more than two years	**154.9**	52.6	**131.6**
Total	**175.4**	231.8	**131.6**

20. Derivative financial instruments

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

	Group 2007 £m	Group 2006 £m	Company 2007 £m
Assets			
Interest rate swaps	**0.7**	0.6	**–**
Total	**0.7**	0.6	**–**

	Group 2007 £m	Group 2006 £m	Company 2007 £m
Liabilities			
Interest rate swaps	**0.2**	1.6	**–**
Foreign currency contracts	**0.5**	0.7	**0.2**
Total	**0.7**	2.3	**0.2**

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

The Group uses interest rate swaps in order to fix the interest payable on a large proportion of its borrowings. 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. The Group has no fair value hedges.

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 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 £1.4m has been credited to equity in the period in respect of cash flow hedges (2006: £1.8m).

The total notional principal of outstanding interest rate swaps that the Group is committed to is £250.1m (2006: £233.7m).

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

Group

	2007 Weighted average interest rate %	2007 Range of interest rates %	2007 Weighted average period to maturity Years	2006 Weighted average interest rate %	2006 Range of interest rates %	2006 Weighted average period to maturity Years
Polish zloty	**5.5**	**5.4-5.8**	**1.5**	6.1	4.5-7.9	0.9
Czech crown	**3.9**	**3.8-4.2**	**1.4**	3.2	2.3-4.2	0.9
Hungarian forint	**7.0**	**6.8-7.3**	**1.6**	7.8	6.3-9.6	1.3
Slovak crown	**4.5**	**4.4-4.5**	**1.6**	3.9	2.7-5.3	1.2
Mexican peso	**8.5**	**8.2-9.7**	**1.5**	8.7	8.2-9.7	1.9

The Company has no interest rate swaps.

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 £0.2m (2006: £nil) has been made to the income statement in the year representing the movement in the fair value of the ineffective portion of the interest rate swaps.

Notes to the financial statements continued

20. Derivative financial instruments continued

Foreign exchange contracts

The total notional amount of outstanding foreign currency contracts that the Group is committed to at 31 December 2007 is £17.6m (2006: £45.1m). These comprise:

- forward foreign currency contracts to buy or sell sterling for a total notional amount of £17.6m (2006: £6.7m). These contracts have various maturity dates up to November 2008 (2006: August 2007). 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
- at 31 December 2006, foreign currency put/sterling call options with a total notional amount of £38.4m and maturity dates up to December 2007. No such options were outstanding as at 31 December 2007. The options were taken out to economically hedge the translation risk on the profit/loss of overseas countries but do not qualify for hedge accounting under IAS 39. The credit to the income statement for the year to 31 December 2007 in respect of these options was £0.4m (2006: credit of £0.5m).

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

- forward foreign currency contracts to buy or sell sterling for a total notional amount of £13.1m. These contracts have various maturity dates up to June 2008. These contracts have not been designated as cash flow hedges under IAS 39 as they 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.

21. 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 on pages 75 and 76.

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, (5.4% in 2007) 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:

	2007 £m	2006 £m
Increase in fair value of derivatives taken to equity	**4.9**	3.8
Reduction in profit before tax	**4.8**	1.8

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.

21. Risks arising from financial instruments continued

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. The net assets of the Group are spread amongst a number of diverse currencies with different underlying currency risks, the risk of all currencies moving in the same way against sterling is therefore reduced.

Cash flow exposure

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

Profit and loss exposure

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

	2007 £m	2006 £m
Change in profit and loss reserves	**0.1**	0.1
Change in profit before tax	**0.2**	0.1

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, Slovakian crown, Hungarian forint, Mexican peso and Romania leu); and
- there is no impact on the profit or loss reserve or equity arising from those items which are naturally hedged (where the currency asset is exactly equal to the currency liability).

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 six countries in which the Group operates. This risk is minimised by only lending to those customers who, as evidenced by our credit scoring techniques, 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 application scoring process. The level of expected future losses are 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.

Notes to the financial statements continued

21. Risks arising from financial instruments continued

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	
	2007 £m	2006 £m
Cash and cash equivalents	**88.8**	44.5
Amounts receivable from customers	**443.2**	331.0
Derivative financial instruments	**0.7**	0.6
Trade and other receivables	**9.0**	6.5
Total	**541.7**	382.6

The above table represents a worst case scenario of the credit risk that the Group is exposed to at 31 December 2007 and 31 December 2006. An analysis of the amounts receivable from customers by geographical segment is presented in note 15 and of the cash and cash equivalents in note 16. 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 accounting policy set out on page 61. 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 the amounts receivable from customers include no amounts that are past due but not impaired.

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

	Group	
	2007 £m	2006 £m
Central Europe	**304.1**	198.8
Mexico	**17.2**	11.4
Romania	**2.3**	–
	323.6	210.2

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

	Group	
	2007	2006
Central Europe	**19.2%**	27.9%
Mexico	**47.4%**	47.3%
Romania	**12.8%**	n/a

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

21. Risks arising from financial instruments continued

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. 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 2007 the Group's committed borrowing facilities had an average period to maturity of 2.2 years. As shown on page 72 total undrawn committed facilities as at 31 December 2007 were £175.4m.

On page 72 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	
	2007 £m	2006 £m
Not later than six months	**11.9**	17.2
Later than six months and not later than one year	**20.9**	70.0
Later than one year and not later than two years	**23.6**	86.6
Later than two years and not later than five years	**374.9**	97.3
	431.3	271.1

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

The following analysis shows the gross undiscounted contractual cash flows in respect of derivative liabilities which are all designated as cash flow hedges:

	Group			
	2007		2006	
	Outflow £m	**Inflow £m**	Outflow £m	Inflow £m
Not later than one month	**4.5**	**4.4**	1.0	1.0
Later than one month and not later than six months	**13.1**	**12.6**	10.6	10.3
Later than six months and not later than one year	**0.7**	**0.7**	0.4	–
Later than one year and not later than two years	**–**	**–**	0.3	–
Later than two years and not later than five years	**–**	**–**	0.2	–
	18.3	**17.7**	12.5	11.3

All trade and other payables are expected to be settled within 12 months of the balance sheet date.

Notes to the financial statements continued

21. Risks arising from financial instruments continued

A maturity analysis of the Group's receivables and borrowing facilities as at 31 December 2007 is presented below:

	Group			
	Receivables £m	Percentage of total %	Committed borrowing facilities £m	Percentage of total %
Less than one year	422.7	95.4	29.3	5.4
Later than one year	20.5	4.6	516.9	94.6
	443.2	100.0	546.2	100.0

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 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:

	2007 £m
Receivables	443.2
Borrowings	(370.8)
Other net assets	131.2
Equity	203.6
Equity as % of receivables	45.9%
Gearing	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 1.8 times at 31 December 2007, is well within covenant limits.

22. Analysis of financial assets and financial liabilities

Financial assets

An analysis of Group financial assets is presented below:

	2007			2006		
	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	88.8	–	88.8	44.5	–	44.5
Amounts receivable from customers	443.2	–	443.2	331.0	–	331.0
Derivative financial instruments	–	0.7	0.7	–	0.6	0.6
Amounts due from Provident Financial plc	–	–	–	78.3	–	78.3
Trade and other receivables	9.0	–	9.0	6.5	–	6.5
	541.0	0.7	541.7	460.3	0.6	460.9

22. Analysis of financial assets and financial liabilities continued

Financial liabilities

An analysis of Group financial liabilities is presented below:

	2007			2006		
	Other financial liabilities £m	Derivatives used for hedging £m	Total £m	Other financial liabilities £m	Derivatives used for hedging £m	Total £m
Bank borrowings	370.8	–	370.8	388.0	–	388.0
Trade and other payables	50.6	–	50.6	35.0	–	35.0
Derivative financial instruments	–	0.7	0.7	–	2.3	2.3
Current tax liabilities	5.0	–	5.0	13.6	–	13.6
	426.4	0.7	427.1	436.6	2.3	438.9

23. Fair values of financial assets and liabilities

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

	2007		2006	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Financial assets				
Cash and cash equivalents	88.8	88.8	44.5	44.5
Amounts receivable from customers	600.0	443.2	400.0	331.0
Derivative financial instruments	0.7	0.7	0.6	0.6
Amounts due from Provident Financial plc	–	–	78.3	78.3
Trade and other receivables	9.0	9.0	6.5	6.5
	698.5	541.7	529.9	460.9
Financial liabilities				
Bank borrowings	370.8	370.8	388.0	388.0
Trade and other payables	50.6	50.6	35.0	35.0
Derivative financial instruments	0.7	0.7	2.3	2.3
Current tax liabilities	5.0	5.0	13.6	13.6
	427.1	427.1	438.9	438.9

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.

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

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

24. Retirement benefit obligations

a) Pension schemes – defined benefit

During the period from 1 January 2006 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 are to be transferred from the Provident Financial plc schemes to the new scheme together with an agreed amount of assets. The amount of assets to be transferred broadly equals the value of liabilities on 16 July 2007 adjusted to allow for subsequent investment returns and cash flows plus £3.5m.

Notes to the financial statements continued

24. Retirement benefit obligations continued

Comparative information is not presented in respect of the retirement benefit asset as the asset was only brought onto the balance sheets of the Group and Company at the date of demerger.

IPF's share of the scheme assets is stated at fair value at 31 December 2007. The major assumptions used by the actuary were:

	Group and Company 2007 %
Price inflation	3.4
Rate of increase in pensionable salaries	5.0
Rate of increase to pensions in payment	3.4
Discount rate	5.7
Long-term rate of return:	
– equities	7.9
– bonds	4.7
– index-linked gilts	4.3
– other	4.5
– overall (weighted average)	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 22 years. On average, we expect a female retiring in the future at age 65 to live for a further 25 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 £0.002m and the present value of defined benefit obligations would have increased by approximately £0.724m.

The amounts recognised in the balance sheet are as follows:

	Group 2007 £m	Company 2007 £m
Equities	17.6	3.8
Bonds	4.8	1.1
Index-linked gilts	4.8	1.1
Other	4.7	1.0
Total fair value of scheme assets	31.9	7.0
Present value of funded defined benefit obligations	(30.2)	(6.6)
Net asset recognised in the balance sheet	1.7	0.4

The amounts recognised in the income statement are as follows:

	Group 2007 £m	Company 2007 £m
Current service cost	0.1	–
Interest cost	0.8	0.2
Expected return on scheme assets	(1.0)	(0.2)
	(0.1)	–
Exceptional credit on demerger	(3.5)	(0.8)
Net credit recognised in the income statement	(3.6)	(0.8)

The net credit recognised in the income statement has been included within administrative expenses.

24. Retirement benefit obligations continued

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

	Group 2007 £m	Company 2007 £m
Fair value of scheme assets at 1 January (Company: 5 December 2006)	–	–
Transfer from Provident Financial plc	30.9	6.8
Expected return on scheme assets	1.0	0.2
Actuarial losses on scheme assets	(0.1)	–
Contributions by the Group	0.1	–
Contributions paid by scheme participants	0.1	–
Net benefits paid out	(0.1)	–
Fair value of scheme assets at 31 December	31.9	7.0

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

	Group 2007 £m	Company 2007 £m
Defined benefit obligation at 1 January (Company: 5 December 2006)	–	–
Transfer from Provident Financial plc	(27.4)	(6.0)
Current service cost	(0.1)	–
Interest cost	(0.8)	(0.2)
Contributions paid by scheme participants	(0.1)	–
Actuarial losses on scheme liabilities	(1.9)	(0.4)
Net benefits paid out	0.1	–
Defined benefit obligation at 31 December	(30.2)	(6.6)

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

	Group 2007 £m	Company 2007 £m
Expected return on scheme assets	1.0	0.2
Actuarial losses on scheme assets	(0.1)	–
Actual return on scheme assets	0.9	0.2

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 2007 £m	Company 2007 £m
Actuarial losses on scheme assets	(0.1)	–
Actuarial losses on scheme liabilities	(1.9)	(0.4)
Total loss recognised in the SORIE in the year	(2.0)	(0.4)
Cumulative amount of losses recognised in the SORIE	(2.0)	(0.4)

Notes to the financial statements continued

24. Retirement benefit obligations continued

The history of experience adjustments is as follows:

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

b) Pension schemes – defined contribution

The defined benefit pension arrangements previously operated by Provident Financial plc and now to be operated by the Group were closed to new members from 1 January 2003. All eligible UK employees joining after that date 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 £101,000 for the year ended 31 December 2007 (31 December 2006: £55,000). £nil of contributions were payable to the plan at the year end (31 December 2006: £nil).

25. Share-based payments

The Group operates three share schemes: The International Personal Finance plc Incentive Plan (the Incentive Plan), The International Personal Finance plc Performance Share Plan (the Performance Share Plan), and The International Personal Finance plc Exchange Share Scheme 2007 (the Exchange 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 performance target. The total income statement charge in respect of these share-based payments is £0.9m (2006: £nil).

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 £0.8m (2006: £nil). This has been included within exceptional demerger costs.

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
Grant date	20-Jul-07	20-Jul-07	20-Jul-07
Share price at award date (£)	2.50	2.50	2.50
Base price for TSR	2.26	2.26	n/a
Exercise price (£)	nil	nil	nil
Shares awarded	n/a	1,592,193	420,674
Vesting period (years)	3-4	3-4	2
Expected volatility	30.0%	30.0%	n/a
Award life (years)	3	3	2
Expected life (years)	3	3	2
Risk-free rate	5.7%	5.7%	n/a
Expected dividends expressed as a dividend yield	2.8%	2.8%	2.8%
Deferred portion	50.0%	50.0%	n/a
TSR threshold	30.0%	30.0%	n/a
TSR maximum target	n/a	60.0%	n/a
Fair value per award (£)	n/a	1.10-1.13	2.40

25. Share-based payments continued

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 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 1,483,799 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.

No awards were outstanding at the beginning of the year as all awards were made post demerger on 20 July 2007. Between 20 July 2007 and 31 December 2007 108,394 awards under the Performance Share Plan and 29,084 awards under the Exchange Scheme lapsed.

Further detail in respect of the Incentive Plan, Performance Share Plan and the Exchange Scheme is given in paragraphs 3.9 to 3.12 of the directors' remuneration report.

In addition, an amount of £1.6m has been charged to the income statement in respect of an accelerated charge for share options in Provident Financial plc which became exercisable on demerger and a charge of £0.2m (2006: credit of £0.4m) was made during the first six months of the year in respect of share options in Provident Financial plc.

26. Share capital

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

On incorporation, the Company's authorised share capital was 100,000 ordinary shares of £1 each. Of such shares, two ordinary shares were taken up by the subscribers to the memorandum of association, R J Marshall Smith and E G Versluys, and were paid up in full in cash. The share held by E G Versluys was subsequently transferred to J A Harnett. On 2 March 2007 the Company authorised and issued 50,000 £1 preference shares. On 31 May 2007 these shares were redeemed at par.

On 19 June 2007, 32 ordinary shares of £1 each were allotted and issued to J A Harnett (16 shares) and R J Marshall Smith (16 shares) bringing the total issued share capital to 34 ordinary shares of £1 each. On 19 June 2007 the authorised share capital was increased by the creation of a further 2,400,034 £1 shares and the 50,000 £1 preference shares were redesignated as 50,000 £1 ordinary shares bringing the total authorised share capital to 2,550,034 ordinary shares of £1 each. On 19 June 2007 the authorised but unissued share capital of the Company was then consolidated into 1,500,000 ordinary shares of £1.70 each and the issued share capital was consolidated into 20 shares of £1.70 each, bringing the total authorised share capital to 1,500,020 ordinary shares of £1.70 each. The authorised share capital was then increased by the creation of a further 500,000,000 ordinary shares of £1.70 each, bringing the authorised share capital of the Company to £852.6m representing 501,500,020 shares of £1.70 each. On 16 July 2007 a further 257,217,868 shares were issued in exchange for the entire share capital of Provident International Holdings Limited (renamed IPF Holdings Limited on 19 July 2007) bringing the total issued share capital to 257,217,888 shares of £1.70 each.

On 30 May 2007 a special resolution was passed, conditional upon admission of the Company to the Official List and being admitted to trading on the main market of the London Stock Exchange and the approval of the court, to reduce the nominal value of each IPF plc share from £1.70 to £0.10. On 19 July 2007 this special resolution was effected and a transfer of £411.6m was made from the share capital account to the profit and loss reserve. The authorised share capital was reduced from 501,500,020 shares of £1.70 each to 501,500,020 shares of £0.10 each and the issued share capital was reduced from 257,217,888 shares of £1.70 each to 257,217,888 shares of £0.10 each.

Notes to the financial statements continued

27. Statement of changes in shareholders' equity
Group

	Called-up share capital £m	Other reserve £m	Foreign exchange reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2006	3.2	–	6.6	(1.9)	50.4	58.3
Exchange losses on foreign currency translation	–	–	(0.2)	–	–	(0.2)
Net fair value gains – cash flow hedges	–	–	–	1.8	–	1.8
Tax charge on items taken to equity	–	–	–	(0.6)	–	(0.6)
Net (expense)/income recognised directly in equity	–	–	(0.2)	1.2	–	1.0
Profit after taxation for the year	–	–	–	–	23.0	23.0
Total recognised (expense)/income for the year	–	–	(0.2)	1.2	23.0	24.0
Share-based payment adjustment to reserves	–	–	–	–	(0.4)	(0.4)
At 31 December 2006	3.2	–	6.4	(0.7)	73.0	81.9
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**

On 30 May 2007 a special resolution was passed, conditional upon admission of the Company to the London Stock Exchange and the approval of the court, to reduce the nominal value of each IPF plc share from £1.70 to £0.10.

On 16 July 2007 257,217,868 shares of £1.70 were issued by IPF plc in exchange for the entire share capital of Provident International Holdings Limited (renamed as IPF Holdings Limited). The difference between the nominal value of shares issued and the fair value of the subsidiaries acquired was credited to an 'other' reserve in accordance with the reverse acquisition principles of IFRS 3.

On 19 July 2007 the special resolution was effected resulting in a transfer from share capital to retained earnings for IPF plc and to 'other' reserve for the Group.

In accordance with the principles of reverse acquisition accounting the share capital presented is that of the legal parent, IPF plc, but the retained earnings represent the pre-acquisition reserves of IPF Holdings Limited plus the profit and other equity movements of the Group post demerger. The difference between the equity structure of IPF plc and IPF Holdings Limited has been debited to the 'other' reserve.

Prior to the demerger Provident Financial plc made a capital contribution of £70.0 million to the international businesses that now form IPF. This capital contribution comprised an amount of £30.0 million received on 2 March 2007 and £40.0 million received on 20 June 2007. These amounts have been credited to retained earnings.

27. Statement of changes in shareholders' equity continued

Company

	Called-up share capital £m	Other reserve £m	Retained earnings £m	Total equity £m
At 5 December 2006	–	–	–	–
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**

As detailed on the previous page the Company issued 257,217,868 shares on 16 July 2007 in exchange for the entire issued share capital of Provident International Holdings Limited (renamed as IPF Holdings Limited). The difference between the nominal value of the shares issued and the fair value of the subsidiaries acquired was credited to an 'other' reserve in IPF plc.

As shown above, following the court reduction an amount of £411.6m (257,217,888 shares at £1.60) was transferred from share capital to retained earnings.

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 £2.8m.

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

	Group		Company
	2007 £m	2006 £m	**2007 £m**
Profit/(loss) after taxation	**32.5**	23.0	**(2.8)**
Adjusted for:			
– tax charge/(credit)	**14.5**	11.6	**(1.4)**
– finance costs	**22.3**	24.0	**2.0**
– finance income	**–**	–	**(1.3)**
– share-based payment charge/(credit)	**3.5**	(0.4)	**0.5**
– defined benefit pension credit (note 24)	**(3.6)**	–	**(0.8)**
– depreciation of property, plant and equipment (note 13)	**9.6**	7.2	**–**
– profit on sale of property, plant and equipment	**(0.2)**	(0.2)	**–**
– amortisation of intangible assets (note 11)	**3.4**	–	**–**
Changes in operating assets and liabilities:			
– amounts receivable from customers	**(63.5)**	(7.0)	**–**
– trade and other receivables	**7.2**	(0.7)	**(84.1)**
– trade and other payables	**19.8**	9.0	**52.6**
– retirement benefit asset	**(0.1)**	–	**–**
– derivative financial instruments	**(0.3)**	(0.7)	**0.2**
Cash generated from/(used in) operations	**45.1**	65.8	**(35.1)**

Notes to the financial statements continued

29. Commitments

Commitments to make operating lease payments are as follows:

	Group 2007 £m	Group 2006 £m
In less than one year	**5.4**	5.3
In more than one year but not later than five years	**9.1**	8.9
In more than five years	**10.6**	8.6
	25.1	22.8

Other commitments are as follows:

	Group 2007 £m	Group 2006 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	**2.0**	0.6

The Company has no commitments as at 31 December 2007.

30. 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 £367.5m. At 31 December 2007 the fixed and floating rate borrowings under these facilities amounted to £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 2007 was £nil.

31. Related party transactions

IPF plc has various transactions with other companies in the Group. Details of these transactions along with any balances outstanding at 31 December 2007 are set out below:

Company	2007 Recharge of costs £m	2007 Interest charge £m	2007 Outstanding balance £m
Central Europe	–	1.3	31.4
Mexico	–	0.1	–
Romania	–	0.3	11.7
Other UK companies	0.3	0.1	(7.5)
	0.3	1.8	35.6

In the period from 1 January 2007 to 16 July 2007 the Group received £0.5m of interest from Provident Financial plc and paid £1.6m in respect of a management services agreement. In the period from 1 January 2006 to 31 December 2006 the Group received £0.3m of interest and paid £6.1m in respect of management services. In addition in the year ended 31 December 2006 the Group paid £12.1m to acquire a software licence from a company within the Provident Financial plc group. As at 31 December 2006 an amount of £78.3m was due from the Provident Financial plc group.

32. Pro forma income statement (unaudited)

A reconciliation of the statutory result for the years ended 31 December 2007 and 31 December 2006 to the pro forma result is presented below. The pro forma adjustments do not form part of the Group's financial statements.

	Statutory £m	Exceptional demerger costs £m	Pro forma adjustments £m	Pro forma £m
31 December 2007				
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)
Profit before taxation	47.0	2.8	0.3	50.1
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)
Profit after taxation	32.5	2.4	0.2	35.1

Notes to the financial statements continued

32. Pro forma income statement (unaudited) continued

	Statutory £m	Exceptional demerger costs £m	Pro forma adjustments £m	Pro forma £m
31 December 2006				
Revenue	365.3	–	–	365.3
Impairment	(103.1)	–	–	(103.1)
Revenue less impairment	262.2	–	–	262.2
Finance costs	(24.0)	–	5.4	(18.6)
Other operating costs	(58.2)	–	–	(58.2)
Administrative expenses	(145.4)	4.2	(4.3)	(145.5)
Total costs	(227.6)	4.2	1.1	(222.3)
Profit before taxation	34.6	4.2	1.1	39.9
Analysed as:				
Central Europe	59.2	–	4.9	64.1
UK-central costs	(8.3)	–	(3.6)	(11.9)
Established businesses	50.9	–	1.3	52.2
Mexico	(9.7)	–	(0.2)	(9.9)
Romania	(2.4)	–	–	(2.4)
Exceptional demerger costs	(4.2)	4.2	–	–
Profit before taxation	34.6	4.2	1.1	39.9
Taxation	(11.6)	(0.9)	(0.3)	(12.8)
Profit after taxation	23.0	3.3	0.8	27.1

The exceptional demerger costs can be analysed as follows:

	2007 £m	2006 £m
IT separation costs	**2.3**	2.9
Property costs	**–**	0.9
Defined benefit pension credit	**(3.5)**	–
Accelerated share-based payment charge	**2.4**	–
Other	**1.6**	0.4
	2.8	4.2
Tax credit	**(0.4)**	(0.9)
	2.4	3.3

The pro forma adjustments can be analysed as follows:

	Notes	**2007 £m**	2006 £m
Additional interest charge due to higher interest rates	a	**(0.8)**	(1.9)
Interest credit on capital contribution	b	**1.9**	4.7
Corporate office costs	c	**(2.8)**	(6.9)
Additional property and IT costs	d	**–**	(2.7)
Group interest payable	e	**2.0**	2.6
Pension contributions	f	**–**	5.3
		0.3	1.1
Tax credit		**(0.1)**	(0.3)
		0.2	0.8

The income statement pro forma adjustments can be explained as follows:

a) An adjustment has been included to increase finance costs to reflect the fact that IPF is subject to higher interest rates now that borrowings are no longer guaranteed by Provident Financial plc.
b) As part of the demerger, IPF received a capital contribution of £70.0 million from Provident Financial plc (see note 27). 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 2006.
c) An adjustment in respect of additional corporate office costs is included to reflect that as a standalone entity with its own corporate office IPF incurs additional costs compared with when it was a division of Provident Financial plc.
d) As part of the demerger IPF has moved to new premises and undergone a process of separating its IT systems. The additional costs in respect of these items are included as a pro forma adjustment for 2006. The property and IT changes had all occurred by the start of 2007 and therefore no adjustment is included to the 2007 result.
e) While IPF 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 standalone 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.
f) This pro forma adjustment reverses statutory charges in respect of the pension contributions which were made to the defined benefit pension schemes. A one-off additional payment was made in 2006 of £5.3 million. As IPF did not acquire the assets and liabilities of the defined benefit schemes until after the demerger it is required to charge these contributions to the income statement rather than increasing the pension surplus held on the balance sheet. These contributions were not treated as a charge to the income statement within the international division result reported within the Provident Financial plc result. Instead they were accounted for as a reduction in the Provident Financial plc pension deficit.

A reconciliation of the statutory profit for the year ended 31 December 2006 of £34.6 million to the profit included for the international division in the segmental analysis of Provident Financial plc is presented below:

	2006 £m
International division profit before taxation reported in Provident Financial plc results	46.2
Pension adjustment	(5.3)
Group interest allocation	(2.6)
Exceptional demerger costs	(4.2)
Reduced recharge (see below)	0.5
	34.6

The statutory recharge from Provident Financial plc was £0.5 million lower than that allocated to the international division for the Provident Financial plc segmental analysis.

Notes to the financial statements continued

33. Pro forma balance sheet (unaudited)

A reconciliation of the actual balance sheet as at 31 December 2006 to the pro forma balance sheet is presented below:

	Notes	Unaudited Statutory 2006 £m	Pro forma Adjustments £m	Unaudited Pro forma 2006 £m
Assets				
Non-current assets				
Intangible assets		14.0	–	14.0
Property, plant and equipment		30.2	–	30.2
Retirement benefit asset	a	–	0.4	0.4
Deferred tax assets	b	15.7	(0.1)	15.6
		59.9	0.3	60.2
Current assets				
Amounts receivable from customers				
– due within one year		312.4	–	312.4
– due in more than one year		18.6	–	18.6
		331.0	–	331.0
Derivative financial instruments		0.6	–	0.6
Cash and cash equivalents	c	44.5	0.1	44.6
Amounts due from Provident Financial plc	d	78.3	(78.3)	–
Trade and other receivables		6.5	–	6.5
		460.9	(78.2)	382.7
Total assets		520.8	(77.9)	442.9
Liabilities				
Current liabilities				
Bank borrowings	e	(218.4)	145.3	(73.1)
Derivative financial instruments		(2.3)	–	(2.3)
Trade and other payables		(35.0)	–	(35.0)
Current tax liabilities	f	(13.6)	0.9	(12.7)
		(269.3)	146.2	(123.1)
Non-current liabilities				
Bank borrowings		(169.6)	–	(169.6)
		(169.6)	–	(169.6)
Total liabilities		(438.9)	146.2	(292.7)
Net assets		**81.9**	**68.3**	**150.2**
Shareholders' equity				
Called-up share capital	g	3.2	22.5	25.7
Other reserve	g	–	(22.5)	(22.5)
Foreign exchange reserve		6.4	–	6.4
Hedging reserve		(0.7)	–	(0.7)
Retained earnings		73.0	68.3	141.3
Total equity		**81.9**	**68.3**	**150.2**

The balance sheet pro forma adjustments can be explained as follows:

a) Inclusion of defined benefit pension asset. The statutory financial information only includes a pension asset from the date of demerger which is the date at which Provident Financial plc agreed to transfer the scheme assets and liabilities in respect of IPF employees to IPF.
b) Deferred tax on defined benefit pension asset.
c) The cash balances of IPF plc which are excluded from the statutory consolidated financial information until the date of demerger.
d) The amounts due from Provident Financial plc have been netted against borrowings in the pro forma information.
e) This adjustment includes the £78.3 million due from Provident Financial plc which has been reclassified (note (d)), the £70.0 million capital contribution which was received as part of the preparation for the demerger (see note 27) and £3.0 million of demerger costs.
f) This is the expected tax credit on the £3.0 million of demerger costs.
g) This adjustment brings the share capital to that of IPF plc which is the legal share capital of the Group as at 31 December 2007. The difference between the share capital of IPF plc and the share capital of the international businesses of Provident Financial plc has been credited to an 'other' reserve.

34. Pro forma earnings per share (EPS) (unaudited)

A reconciliation of the statutory EPS to the pro forma EPS for the years ended 31 December 2007 and 31 December 2006 is presented below:

	2007 pence	2006 pence
Basic EPS	12.64	8.94
Exceptional demerger costs, net of taxation	0.93	1.28
Pro forma adjustments, net of taxation	0.08	0.32
Pro forma EPS	**13.65**	10.54

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

	2007 pence	2006 pence
Central Europe	21.95	16.92
UK-central costs	(3.40)	(3.14)
Established businesses	18.55	13.78
Mexico	(3.62)	(2.61)
Romania	(1.14)	(0.63)
Russia	(0.14)	–
Pro forma EPS	**13.65**	10.54

Information for shareholders

1. Financial calendar

Dividend announced	5 March 2008
Ex-dividend date for ordinary shares	9 April 2008
Record date for the final dividend	11 April 2008
Annual general meeting/ Interim management statement	14 May 2008
Payment date of the final dividend	23 May 2008
Interim management report	23 July 2008
Interim management statement	22 October 2008

2. Share price

Information on our share price is available on the Company's website (www.ipfin.co.uk), on CEEFAX on BBC1/BBC2 and on Teletext on ITV1/Channel 4.

3. Individual Savings Account (ISA)

Shareholders may take out an ISA which includes shares in the Company with a provider of their choice. However, the Company has made arrangements for its shareholders and employees with Redmayne Bentley for the provision of an ISA. Shareholders who are eligible and who wish to take advantage of this should contact Redmayne Bentley, Merton House, 84 Albion Street, Leeds LS1 6AG (telephone 0113 243 6941).

4. Capital Gains Tax (CGT) base cost for UK shareholders

On 16 July 2007, Provident Financial plc ('PF') demerged its international business, and shares in International Personal Finance plc ('IPF'), the new holding company, were listed on the main market of the London Stock Exchange. Immediately following the demerger, PF's share capital was consolidated on the basis of one consolidated PF share for every two non-consolidated PF shares.

The aggregate base cost for the purposes of the taxation of chargeable gains of the IPF shares and the PF shares immediately after the demerger and the share consolidation should be the same as the base cost of the PF shares immediately before the demerger. Such base cost should be apportioned between the PF shares and the IPF shares held by each shareholder by reference to their respective market values on the first day on which those shares' prices were quoted in the London Stock Exchange Daily Official List, which in this case was 16 July 2007.

Market value for these purposes is prescribed by section 272(3) Taxation of Chargeable Gains Act 1992. Taking this, the aggregate base cost of a total shareholding following the demerger and share consolidation is to be apportioned between the aggregate consolidated PF shares and the aggregate IPF shares as follows:

64.11% to consolidated PF shares; and

35.89% to IPF shares,

based upon a share price of 923.25p per share in PF, and 258.47p per share in IPF, being in each case the lower of the 'quarter-up' (as derived from the London Stock Exchange Daily Official List) and 'mid-point' (being half way between the highest and lowest prices at which bargains were recorded) prices for those shares on 16 July 2007. A shareholder with a total shareholding of 1,000 PF shares prior to demerger having an aggregate base cost of £6,000, would, after the demerger and share consolidation, have 500 consolidated PF shares and 1,000 IPF shares with an aggregate base cost of £3,847 and £2,153 respectively (or 769p and 215p per share respectively).

It should be noted that proceeds from any fractional entitlement from the share consolidation should also be deducted in order to determine the base cost.

This information is intended for general guidance only, it does not constitute tax advice and is relevant only to individuals who are resident or ordinarily resident in the UK, beneficial owners of their shares and who hold their shares as an investment. Shareholders should take their own tax advice as appropriate. Shareholders may wish to refer to the circular to shareholders dated 25 June 2007 issued by PF.

5. Registrar

The registrar deals with all matters relating to transfers of ordinary shares in the Company and with enquiries concerning holdings. The registrar is Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone 0871 664 0300. Calls cost 10p per minute plus network extras).

The registrar's website is www.capitaregistrars.com. This will give you access to your personal shareholding by means of your investor code (which is printed on your share certificate). A range of services is available to shareholders including: a dividend reinvestment scheme; setting up or amending dividend bank mandates and amending personal details. Most services will require a user ID and password which will be provided on registration.

6. Special requirements

A black and white large text version of this document (without pictures) is available on request from the Company Secretary at the address below. A fully accessible html version of the Annual Report and Financial Statements 2007 is also available on the Company's website which renders all of the text readable by voice browsers and screen readers.

7. Company details

Registered office and contact details:

International Personal Finance plc

Number Three
Leeds City Office Park
Meadow Lane
Leeds
LS11 5BD

Telephone: +44 (0)113 285 6700
Fax: +44 (0)113 245 1675
Email: enquiries@ipfin.co.uk
Website: www.ipfin.co.uk

Company number
6018973

International Personal Finance plc
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Meadow Lane
Leeds
LS11 5BD

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Fax: +44 (0)113 245 1675
Email: enquiries@ipfin.co.uk
Website: www.ipfin.co.uk

Company number
6018973

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