Full-year Financial Report
for the year ended 31 December 2020

CONTENTS PAGE

Notes

This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The report should not be relied on by any other party or for any other purpose. The report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, as well as any forward-looking information. Percentage change figures for all performance measures, other than profit / (loss) before taxation and earnings / (loss) per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate (CER) for 2020 to present the performance variance.

International Personal Finance plc
Full-year Financial Report for the period ended 31 December 2020
This announcement contains inside information

*International Personal Finance plc specialises in providing unsecured consumer credit to 1.7 million customers across 11 markets. We operate the world's largest home credit business and a successful fintech operator, IPF Digital***.**

Key takeaways

- **Resilient H2 trading performance following decisive actions to tackle Covid-19 challenges**
  - Highly effective Covid-19 response centred on protecting our people, prioritising our loyal customers and protecting the business delivered positive operational performance and return to profit in H2
  - Improvements in collections effectiveness[1] from May enabled progressive increases in credit issued to our highest quality customers
  - Rightsized the business to reflect reduced scale of operations including an organisational restructure focused on preserving frontline roles
  - Return to growth plan being implemented to return to full-year profitability and deliver long-term, sustainable growth

- **Group financial performance impacted by Covid-19; return to profitability in H2**
  - Focus on portfolio quality and liquidity resulted in a 41% year-on-year reduction in credit issued
  - Elevated impairment charge recognised due to Covid-19 impact – significant improvement in H2 impairment charge
  - Cost savings of £58.3 million delivered as a result of tight cost control and rightsizing strategy
  - Pre-exceptional loss before tax of £28.8 million (2019 profit: £114.0 million)
  - Pre-exceptional profit before tax of £18.0 million in H2 2020
  - Exceptional loss of £11.9 million resulting in statutory loss before taxation of £40.7 million

- **Strong funding position and strengthened balance sheet**
  - Well capitalised: equity to receivables ratio strengthened significantly to 55.4% at 31 December (31 December 2019: 44.8%)
  - Successful completion of new 5-year Eurobond issue and amended covenant package across all the Group's bonds and bank facilities
  - Bond and bank facilities total £624 million of funding to support future growth with headroom on undrawn facilities and non-operational cash balances of £210 million

Group key statistics	FY 2019	**FY 2020**	YOY change at CER
Customer numbers (000s)	2,109	**1,682**	(20%)
Credit issued (£m)	1,353.0	**772.2**	(41%)
Revenue (£m)	889.1	**661.3**	(22%)
Pre-exceptional impairment % revenue	27.4%	**37.4%**	(10.0ppts)
Pre-exceptional cost-income ratio	43.5%	**47.7%**	(4.2ppts)
Pre-exceptional PBT/(LBT) (£m)	114.0	**(28.8)**	
Statutory PBT/(LBT) (£m)	114.0	**(40.7)**	
Statutory EPS/(LPS) (pence)	32.2	**(28.9)**	
Full-year dividend per share (pence)	12.4	**-**	

[1] *Collections effectiveness defined as percentage of collections made (adjusted for portfolio size) compared to pre Covid-19 expectations*

Gerard Ryan, Chief Executive Officer at IPF commented:
"We have managed the business effectively through this turbulent period and proven the resilience of our international business model. We responded quickly to the pandemic, taking the strategic decision to establish three principles to guide our decision-making - to protect our people, prioritise our loyal customers and protect our business. This approach, together with the implementation of our return to growth plan and the exceptional dedication of our workforce, allowed us to continue serving our customers safely, deliver an improving operational performance and return the business to profitability in the second half of the year. Our business plays a key role in society and we are well-placed to remain at the forefront of lending responsibly to underbanked and underserved consumers and, in turn, deliver long-term growth and value to all our stakeholders."

Market overview and Covid-19 response strategy
From mid-March, the Covid-19 pandemic posed significant, unforeseen challenges for many businesses, particularly those that rely on face-to-face interactions with consumers such as our home credit businesses. We responded quickly and took the strategic decision to establish three principles to guide our decision-making through this turbulent period. These were to protect our people, prioritise our loyal customers and protect our business. We subsequently developed and implemented our phased return to growth plan to safeguard the business, drive our recovery and return to profitability and future long-term growth. This approach, together with the exceptional dedication of our workforce, allowed us to continue serving our customers safely, deliver an improving operational performance and returned the business to profitability in the second half of the year.

As we have reported previously, regulators and governments introduced a range of measures in our markets to manage the effects of the pandemic, some of which had a significant impact on our businesses. Over the course of the year, these measures have been lifted, modified or extended as governments sought to manage their economies through the evolution of the pandemic.

People movement restrictions
During April and May significant restrictions on non-essential contact prevented most of our agents in Europe from visiting customers to collect repayments or grant new loans. In Mexico, where there is a state-by-state response rather than a central government plan, disruption to our agent service has not been market-wide or as severe as our experience in Europe. We used our digital expertise to rapidly develop and deploy remote repayment facilities in all our home credit markets, thus enabling customers to continue repaying their loans while minimising personal contact. We also transitioned all 6,000 office and call centre employees to remote working practices. Since lockdown restrictions were eased, we have continued to provide personal protective equipment and safety guidance to ensure our agents are able to serve customers safely and with confidence. We have also introduced flexible working practices to allow colleagues to work from remote locations or our offices as most befits their needs.

Temporary tightening of existing rate caps
Temporary tightening of existing rate caps was introduced in Poland, Hungary and Finland during the first wave of the pandemic. The temporary reduction of the APR cap in Hungary reverted to the previous level of 24% plus base rate at the start of 2021. The Polish government introduced a temporarily reduced cap on non-interest costs of new lending until 8 March 2021 and this has been extended until 30 June 2021. As we reported at the half-year, the temporary tightening of the existing rate cap in Finland to 10% for all new lending resulted in our decision to close our digital business in this market and collect-out the portfolio.

Temporary debt repayment moratoria

In order to ease financial difficulties for borrowers during the pandemic, the Hungarian government implemented a debt repayment moratorium available for all consumers until the end of 2020, and this was subsequently extended to 30 June 2021. Borrowers can opt-out if they wish to continue to repay their loans and a significant majority of our customers have chosen to do so. Temporary moratoria allowing customers to suspend loan repayments for defined periods were also introduced in a number of our other European markets, but on an “opt-in” basis (unlike Hungary). Take-up was not significant due to the eligibility criteria and our proactive actions to offer alternative forbearance solutions to our customers, including payment holidays.

Group performance

We started 2020 with a good performance before the outbreak of the Covid-19 pandemic in mid-March. While the remainder of 2020 was challenging, and we continue to face macroeconomic uncertainty as a result of the pandemic, our swift and decisive actions early in the year to manage the business through this turbulent period resulted in an improving operational performance from June onwards, and a return to profitability in the second half of the year. It also demonstrated the resilience of our business model, the effectiveness of our credit risk management systems and our ability to generate cash.

The full-year result reflects the significant impact that the pandemic had on our business, both operationally and financially, with a pre-exceptional loss before tax of £28.8 million (statutory loss before tax of £40.7 million).

	FY 2019	**FY 2020**	Change	Change	Change at CER
	£m	**£m**	£m	%	%
Customer numbers (000s)	2,109	**1,682**	(427)	(20.2)	
Credit issued	1,353.0	**772.2**	(580.8)	(42.9)	(40.9)
Average net receivables	986.6	**777.6**	(209.0)	(21.2)	(18.6)
Revenue	889.1	**661.3**	(227.8)	(25.6)	(22.4)
Impairment	(243.5)	**(247.6)**	(4.1)	(1.7)	(6.9)
Net revenue	645.6	**413.7**	(231.9)	(35.9)	(33.4)
Finance costs	(63.5)	**(55.0)**	8.5	13.4	10.4
Agents’ commission	(81.0)	**(72.0)**	9.0	11.1	6.0
Other costs	(387.1)	**(315.5)**	71.6	18.5	15.6
Pre-exceptional profit / (loss) before taxation	114.0	**(28.8)**	(142.8)		
Exceptional items	-	**(11.9)**	(11.9)		
Profit / (loss) before taxation	114.0	**(40.7)**	(154.7)		

Our adherence to tighter credit settings and our liquidity management strategy resulted in a 41% reduction in credit issued, a 19% decline in average net receivables and a 22% contraction in revenue. Our collections performance was disrupted by the pandemic, particularly the restrictions on people movement, and this resulted in a significant increase in the IFRS 9 impairment charge, part of which is assessed as being temporary and is expected to unwind in 2021 (see page 15 for more details). A key component of our Covid-19 response was a significant cost reduction programme. This included the elimination of discretionary expenditure in Q2 and a rightsizing exercise that aligned the cost base to the reduced scale of the business, removing around 1,200 roles from the organisation. These actions delivered a £58.3 million (at CER) reduction in other costs year on year. Finance costs reduced by 10% due to lower average borrowing requirements resulting from our focus on liquidity management and a reduction in base rates. We took a strategic decision to support agent incomes during the pandemic in order to reward the loyalty of our agents and maintain agent - customer relationships, and this resulted in agents' commission reducing at a slower rate than the contraction in revenue.

The income statement includes a net exceptional loss before taxation of £11.9 million which comprises a £10.6 million charge arising from the decision to close our business in Finland (further details are set out in note 9 of this report) and a £9.5 million charge for rightsizing, partially offset by the receipt of £8.2 million of interest income in respect of our successful court challenge to the Polish tax audit cases for 2008 and 2009.

Following a reported pre-exceptional loss before tax of £46.8 million in H1, it is pleasing to report that the business delivered a pre-exceptional profit before tax of £18.0 million in the second half of the year, an improvement of £64.8 million between the periods.

	H1 2020	H2 2020	**FY 2020**
	£m	£m	**£m**
European home credit	(25.6)	12.0	**(13.6)**
Mexico home credit	(8.4)	11.9	**3.5**
IPF Digital	(5.9)	(0.1)	**(6.0)**
Central costs	(6.9)	(5.8)	**(12.7)**
Pre-exceptional (loss) / profit before tax	**(46.8)**	**18.0**	**(28.8)**

This significantly improved performance was driven by a combination of lower impairment charges and cost reductions, partially offset by lower revenue. Revenue reduced by £63.1 million in the second half due to the contraction in the receivables portfolio arising from our credit quality and liquidity management actions. Impairment in the second half of the year was £116.8 million lower than the first half when significant charges were booked to account for the expected impact of the pandemic. Collections effectiveness, which reduced to 76% in April, improved to reach 97% in Q4 2020***.*** As a result, impairment as a percentage of revenue improved significantly from 50.3% in H1 to 21.9% in the second half and this included a 5.4 ppt benefit resulting from the unwinding of discounting provisions. Costs in the second half of the year reduced by £10.9 million compared to H1, reflecting the initial benefits of our rightsizing programme.

Strategy
We play an important role in society by providing affordable finance responsibly to underbanked and underserved consumers. Our strategy centres on delivering a positive customer experience and expanded product range in European home credit to enable these businesses to return to delivering good levels of profitability and returns. These returns will be used to maintain our investment in improving the customer journey and operational efficiency while reinvigorating growth in Mexico home credit and IPF Digital. As we reported at the half-year, our underlying strategy has not changed, but in light of the pandemic, we redefined our strategic goals in April to safeguard the business and develop firm foundations to return quickly to profitability and long-term growth.

Our strategic goals

Phase 1 – H1 2020: Completed
Protect our people, prioritise loyal customers and protect the business

Phase 2 – H2 2020: Completed
Rightsize the business to accelerate recovery and refinance the balance sheet

Phase 3 – 2021: Underway
Rebuild the business

Phase 4 – 2022+
Deliver long-term, sustainable growth

We successfully executed phases 1 and 2 of our plan, and this supported the delivery of the improved operating and financial performance in the second half of the year. In managing the impact of the pandemic, we ensured that our people were well-protected, that we retained our loyal customers and preserved liquidity. Through our rightsizing programme, we significantly reduced our cost base to reflect the smaller scale of our operations and to accelerate a return to full-year profitability. Role reductions were weighted towards back-office positions in order to protect the key field and agent roles that are crucial to retaining loyal customers and delivering future growth. In addition, following a review of the level of expected returns and the capital requirements of each business unit, we closed four weaker-performing branches in Mexico, merged our two digital businesses in Poland to create operational synergies and we decided to collect out the IPF Digital Finland portfolio due to the further tightening of the APR cap in that market.

Despite the challenges of the pandemic, we also made progress on a number of strategic developments. We rolled out our new mobile wallet in Latvia and launched our Creditea digital offering in the Czech Republic. We continued the digital transformation of our home credit operations, completing the roll-out of the sales and collections functionality of our MyProvi mobile app for agents in Europe and commenced the introduction of the first apps in Mexico. Our new MyNews mobile communications app, which proved critical to delivering health and safety information directly to agents and field staff during the pandemic, has been rolled out to all agents and most employees in Europe and 8,000 agents and employees in Mexico, to date.

Phase 3: Rebuild the business
In 2021 we are focused on rebuilding the receivables portfolio and we expect to progressively increase credit issued in each of our businesses. We continue to believe that there will be lower levels of supply of credit in the course of the next few years, and we expect to be in a good position to meet the needs of underserved consumers in our segment.

Phase 4: Deliver longer-term growth
Beyond the return to profitability, we plan to use our digital expertise combined with our market-leading positions and unrivalled knowledge of our core customer segment to enhance our product proposition for customers and deliver longer-term growth across the Group.

Business division performance review
European home credit
Our European home credit businesses are well-established, resilient operations with a long history of delivering good returns. Following a good start to the year, the impact of the pandemic and government policy responses had a significant impact on these operations. This resulted in European home credit delivering a pre-exceptional loss before tax of £13.6 million for 2020 (statutory loss before tax of £11.1million). This comprised a loss of £25.6 million in the first half followed by a return to £12.0 million profit in H2, an improvement of £37.6 million. The recovery was primarily driven by a £55.9 million reduction in the impairment charge partially offset by reduced revenue arising from the contraction in the receivables portfolio. The reduction in impairment was driven by an improved collections performance and the partial unwinding of discounting provisions booked in H1.

	FY 2019 £m	**FY 2020** **£m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	1,009	**860**	(149)	(14.8)	
Credit issued	751.3	**479.6**	(271.7)	(36.2)	(34.6)
Average net receivables	562.0	**468.4**	(93.6)	(16.7)	(14.4)
Revenue	452.2	**363.4**	(88.8)	(19.6)	(17.6)
Impairment	(56.0)	**(132.3)**	(76.3)	(136.3)	(139.7)
Net revenue	396.2	**231.1**	(165.1)	(41.7)	(40.1)
Finance costs	(37.1)	**(33.3)**	3.8	10.2	7.8
Agents' commission	(51.1)	**(50.7)**	0.4	0.8	(2.0)
Other costs	(192.9)	**(160.7)**	32.2	16.7	15.0
Pre-exceptional profit / (loss) before taxation	115.1	**(13.6)**	(128.7)		
Exceptional items	-	**2.5**	2.5		
Profit / (loss) before taxation	115.1	**(11.1)**	(126.2)		

Customer numbers and credit issued contracted year on year by 15% and 35% respectively, attributable largely to the significant tightening of credit settings implemented from March onwards. Collections effectiveness, which reduced in April to 71% of the pre-Covid-19 level when agent service was suspended in a number of markets, improved through the remainder of the year, reaching 95% in Q4 2020. This robust performance enabled a progressive monthly increase in credit issued focused on our loyal, higher-quality customers from June onwards. Average net receivables reduced by 14% year on year, due to reductions in credit issued and Covid-19 related impairment provisions. Revenue contracted at the faster rate of 18%, driven by higher early settlement rebate charges and the temporary reduction in the rate cap in Poland.

The impairment charge for the year increased by £76.3 million to £132.3 million and this increase mainly arose during the first half of the year as a result of the incremental impairment provisions recorded in response to Covid-19 (see page 15 for further details). Impairment as a percentage of revenue increased by 24.0 ppts to 36.4%, driven primarily by the incremental provisions, the most significant uplift of which was in Hungary where the temporary opt-out debt repayment moratorium had a greater impact on collections than in other markets. Successful cost-saving measures implemented across these businesses resulted in a 15% (£28.4 million at CER) reduction in costs. Agents' commission costs increased by 2%, reflecting our objective of supporting agent incomes during this difficult period and the shift in the balance of incentives from sales to collections.

In 2021, we will focus on continuing to regrow credit issued while maintaining robust collections and credit quality. We will also maintain strong cost control as we rebuild scale in these businesses through the year.

Mexico home credit

Actions introduced in 2019 to improve portfolio quality in Mexico were delivering an improved financial performance in the first quarter before the pandemic impacted operations. Lessons learned in Europe, where the onset of the pandemic began earlier than in Mexico, guided pre-emptive action in this market in order to protect our people and the business. For the year as a whole, Mexico home credit reported a pre-exceptional profit of £3.5 million (statutory profit before tax of £0.8 million). This comprised a loss of £8.4 million in the first half followed by a profit of £11.9 million in H2; a turnaround of £20.3 million. This improved performance was driven by a combination of a £37.2 million reduction in the impairment charge together with a lower cost base, partially offset by materially lower revenues arising from the contraction of the receivables portfolio. The strong reduction in impairment in H2 was driven by a continuation of the improvements in collection trends reported before the pandemic and the benefit of the partial unwinding of discounting provisions booked in the first half of the year.

	FY 2019 £m	**FY 2020** **£m**	Change £m	Change %	Change at CER %
Customer numbers (000s)	795	**599**	(196)	(24.7)	
Credit issued	268.2	**143.6**	(124.6)	(46.5)	(40.2)
Average net receivables	164.4	**102.5**	(61.9)	(37.7)	(30.6)
Revenue	247.6	**157.1**	(90.5)	(36.6)	(29.3)
Impairment	(102.3)	**(53.0)**	49.3	48.2	42.2
Net revenue	145.3	**104.1**	(41.2)	(28.4)	(20.2)
Finance costs	(11.8)	**(7.7)**	4.1	34.7	27.4
Agents' commission	(29.9)	**(21.3)**	8.6	28.8	20.8
Other costs	(93.1)	**(71.6)**	21.5	23.1	14.8
Pre-exceptional profit before taxation	10.5	**3.5**	(7.0)		
Exceptional items	-	**2.7**	2.7		
Profit before taxation	10.5	**0.8**	(9.7)		

Our focus on improving credit quality throughout 2019 and the further tightening of credit settings resulting from Covid-19 led to a 25% contraction in customer numbers to 599,000 and a 40% reduction in credit issued year on year. Due to the shorter average loan duration in Mexico, lower credit issued and incremental impairment provisions, average net receivables reduced by 31% and this resulted in a 29% contraction in revenue.

The actions taken to improve operations from the second half of 2019 had begun to deliver increased collections and credit quality at the beginning of the year. However, the onset of the pandemic and subsequent restrictions on people-movement resulted in collections effectiveness reducing initially to 81% in April before improving to 100% in Q4 2020. Impairment as a percentage of revenue reduced year on year to 33.7%, which represents a 7.6 ppt improvement, reflecting the improved operational performance partially offset by incremental charges arising in respect of the pandemic.

Significant cost savings were realised following cost reduction measures taken in response to the pandemic, delivering a 15% (£12.4 million at CER) reduction in other costs. The reduction in agents' commission was driven by lower collections, partially offset by higher commission rates designed to protect agent incomes and maintain customer relationships.

The operational improvements introduced in 2019 had a positive impact on performance during 2020 although this was negatively impacted by the pandemic. The pre-pandemic improvements give us the confidence to continue our strategy of easing credit settings and rebuilding the receivables portfolio whilst maintaining credit quality at the improved level delivered in 2020. The digital transformation of the business will continue as we complete the roll-out of the collections functionality of our MyProvi agent app, which will further improve cost efficiency. We will also focus on improving branch profitability and ensuring rigorous cost management in order to deliver a much-improved financial performance in 2021 and return the business to sustainable growth thereafter.

IPF Digital

IPF Digital provides an end-to-end remote lending model and, as such, experienced significantly less disruption arising from Covid-19 freedom of movement restrictions in 2020. However, as part of our strategy to protect credit quality and manage liquidity, we tightened credit settings significantly in the second half of March, from which point lending was focused on the very best quality new customers and higher-quality existing customers. This resulted in the business reporting a pre-exceptional loss before tax of £6.0 million (statutory loss before tax of £17.3 million), driven by reduced scale and incremental Covid-19 related impairment, partially offset by lower costs. This result comprised a pre-exceptional loss of £5.9 million in the first half and a £0.1 million loss in H2, with the improved performance resulting from lower impairment and reduced costs, partially offset by reduced revenues.

	FY 2019	**FY 2020**	Change	Change	Change at CER
	£m	**£m**	£m	%	%
Customer numbers (000s)	305	**223**	(82)	(26.9)	
Credit issued	333.5	**149.0**	(184.5)	(55.3)	(55.3)
Average net receivables	260.2	**206.7**	(53.5)	(20.6)	(20.8)
Revenue	189.3	**140.8**	(48.5)	(25.6)	(25.8)
Impairment	(85.2)	**(62.3)**	22.9	26.9	26.4
Net revenue	104.1	**78.5**	(25.6)	(24.6)	(25.2)
Finance costs	(14.4)	**(13.9)**	0.5	3.5	4.1
Other costs	(86.5)	**(70.6)**	15.9	18.4	18.0
Pre-exceptional profit / (loss) before taxation	3.2	**(6.0)**	(9.2)		
Exceptional items	-	**(11.3)**	(11.3)		
Profit / (loss) before taxation	3.2	**(17.3)**	(20.5)		

Year on year, customer numbers reduced by 27% to 223,000 and credit issued contracted by 55%, driven by the restricted credit settings introduced in response to Covid-19, our ongoing strategy to improve credit quality in our new markets and the cessation of lending in Finland following a tightening of the rate cap in that country. Average net receivables reduced by 21% and revenue contracted at the slightly faster rate of 26%.

Collections effectiveness reduced to 82% in April with the main drivers of this being fewer customers overpaying the minimum repayment obligation on their credit line facility, together with higher payment holiday requests. Collections effectiveness improved over the course of the year to 99% in Q4 2020. Impairment as a percentage of revenue at 44.2%, was in line with 2019 and comprised a reduction in the new markets, reflecting the benefit of our credit quality improvement strategy, and an increase in the established markets arising from Covid-19. Tight cost control resulted in an 18% reduction in costs (£15.5 million at CER) driven mainly by the benefits of the rightsizing exercise, lower marketing expenditure and other volume-related costs.

The pre-exceptional profitability of IPF Digital is segmented as follows:

	FY 2019	**FY 2020**	Change	Change
	£m	**£m**	£m	%
Established markets	32.7	**18.4**	(14.3)	(43.7)
New markets	(15.5)	**(12.8)**	2.7	17.4
Head office costs	(14.0)	**(11.6)**	2.4	17.1
IPF Digital	3.2	**(6.0)**	(9.2)	

Established markets

The established markets delivered a pre-exceptional profit before tax of £18.4 million (statutory profit before tax of £8.7 million), driven by a combination of lower revenues and higher levels of impairment arising from Covid-19, partially offset by lower costs. This comprised a profit in the first half of £7.0 million and £11.4 million in H2 with the increase in the second half year driven by reduced impairment.

	FY 2019	**FY 2020**	Change	Change	Change at CER
	£m	**£m**	£m	%	%
Customer numbers (000s)	150	**116**	(34)	(22.7)	
Credit issued	165.5	**85.0**	(80.5)	(48.6)	(49.4)
Average net receivables	137.7	**117.9**	(19.8)	(14.4)	(15.5)
Revenue	83.1	**71.6**	(11.5)	(13.8)	(15.1)
Impairment	(16.4)	**(20.5)**	(4.1)	(25.0)	(22.8)
Net revenue	66.7	**51.1**	(15.6)	(23.4)	(24.4)
Finance costs	(7.2)	**(7.8)**	(0.6)	(8.3)	(5.4)
Other costs	(26.8)	**(24.9)**	1.9	7.1	8.1
Pre-exceptional profit before taxation	32.7	**18.4**	(14.3)		
Exceptional items	-	**(9.7)**	(9.7)		
Profit before taxation	32.7	**8.7**	(24.0)		

Credit issued contracted by 49% year on year, impacted by tighter credit settings introduced in response to Covid-19 together with our decision to cease lending in Finland and collect out the portfolio. Average net receivables contracted by 16% due to the lower credit issued and this resulted in a 15% reduction in revenue. Excluding Finland, the contraction in average net receivables and revenue was significantly lower at 6% and 3% respectively.

Impairment as a percentage of revenue increased by 8.9 ppts year on year to 28.6% due to the Covid-19 related incremental impairment that is set out above. Our cost reduction programme resulted in an 8% reduction in costs (£2.2 million at CER).

New markets

Losses in the new markets narrowed year on year to £12.8 million (statutory loss before tax of £14.4 million), which was driven by lower impairment and costs, partially offset by reduced revenue. Losses in the first and second half of the year were broadly similar with lower revenue offsetting reduced impairment and costs.

	FY 2019	**FY 2020**	Change	Change	Change at CER
	£m	**£m**	£m	%	%
Customer numbers (000s)	155	**107**	(48)	(31.0)	
Credit issued	168.0	**64.0**	(104.0)	(61.9)	(61.3)
Average net receivables	122.5	**88.8**	(33.7)	(27.5)	(26.8)
Revenue	106.2	**69.2**	(37.0)	(34.8)	(34.3)
Impairment	(68.8)	**(41.8)**	27.0	39.2	38.5
Net revenue	37.4	**27.4**	(10.0)	(26.7)	(26.7)
Finance costs	(7.2)	**(6.1)**	1.1	15.3	14.1
Other costs	(45.7)	**(34.1)**	11.6	25.4	23.9
Pre-exceptional (loss) before taxation	(15.5)	**(12.8)**	2.7		
Exceptional items	-	**(1.6)**	(1.6)		
(Loss) before taxation	(15.5)	**(14.4)**	1.1		

Customer numbers reduced to 107,000 and credit issued contracted by 61% year on year due to a combination of credit tightening implemented in the second half of 2019 in Poland and Spain to manage credit risk together with further restrictions implemented in response to Covid-19. Average net receivables reduced by 27% and revenue contracted at the faster rate of 34% due to higher levels of claims management charges in Spain.

Impairment as a percentage of revenue improved by 4.4 ppts year on year to 60.4% driven by underlying improvements in credit quality, partially offset by higher provisions booked in respect of Covid-19. Costs reduced by 24% year on year (£10.7 million at CER), driven principally by the benefits of rightsizing, lower marketing expenditure and other volume-related costs as we reduced our credit issued volumes.

IPF Digital continues to offer significant long-term growth opportunities. In 2021, we will focus on progressively rebuilding the receivables portfolio and accelerating new customer growth, delivering further improvements in credit quality and maintaining tight control of costs. We also plan to expand our mobile wallet offering in Latvia, leverage the benefits of merging our two digital businesses in Poland and deliver our collect-out plan in Finland.

Funding and balance sheet

We have a very strong balance sheet, funding position and robust financial risk management. At December 2020, the equity to receivables ratio was 55.4% (2019: 44.8%) and the gearing ratio was 1.4 (2019: 1.5).

The Group refinanced its April 2021 Eurobond in November 2020 with the issuance of a new 2025 €341 million 9.75% Eurobond and a partial cash settlement at par. In addition, we obtained covenant amendments from our other bondholders (2022 SEK and 2023 sterling bonds) and from our current banking partners. At December 2020 the Group had total debt facilities of £624 million (£423 million of bonds and £201 million of bank facilities) and borrowings of £499 million, with headroom on undrawn facilities and non-operational cash balances of £210 million. The average period to maturity of this debt funding is 3.3 years (2019: 1.7 years). Total cash balances at December 2020 were £116 million (2019: £37 million) and include £85 million that was not required for operational purposes but is available to support future receivables growth.

The equity to receivables ratio is materially higher than in previous years and reflects the contraction of the receivables portfolio that resulted from our liquidity management response to Covid-19. This level of equity funding will provide sufficient capital to fund expected receivables growth while maintaining the resilience of the balance sheet given the ongoing Covid-19 pandemic and regulatory uncertainty.

Regulatory update

As previously reported, UOKiK, the Polish competition and consumer protection authority, has been conducting a comprehensive review of early loan settlement rebating practices by banks and other consumer credit providers. In light of this and a recent European Court of Justice declaratory judgment on the matter, new market standard rebating practices are expected to be implemented in Poland during 2021. Our current expectation for our Polish business is that the annualised financial impact on profit before tax is likely to be in the range of £5 million to £10 million and we are working on a number of mitigating strategies.

In Romania, legislation enacted by parliament in May 2020 implementing a cap on the total amount payable on a consumer loan agreement was successfully challenged at the Constitutional Court in January of this year. As a result, the law, which was suspended pending the court challenge, has been annulled and any further effort to implement similar proposals would require a new and complete legislative process.

Taxation

The taxation charge on the post-exceptional loss for 2020 is £23.5m. The pre-exceptional tax charge is £24.5 million. The tax charge arises from a combination of factors but is largely driven by the non-tax deductible impairment charges, liability to certain taxes that are computed with reference to profits for prior periods rather than current year, and the write-off of deferred tax assets.

The exceptional tax credit of £1 million is stated net of a £1.1 million write-off of a deferred tax asset held in respect of the Finnish business.

Following our successful appeals against the Polish Tax Chamber's decisions for 2008 and 2009 earlier in 2020, the Group currently has no open tax audits in Poland.

With regard to the European Commission's State Aid challenge to the UK's Group Financing Exemption regime, following the enactment of new legislation in December 2020, HMRC has issued a Charging Notice seeking payment of £14.2 million in respect of the alleged State Aid for the affected years. The payment of this amount is a procedural matter, and the new law does not allow for postponement. Accordingly this amount was paid in February 2021 and we are appealing the Charging Notice on the grounds of the quantum assessed. Whether the UK's Group Financing Exemption regime constitutes State Aid is ultimately to be decided and we continue to await a decision of the General Court of the European Union on this matter. Further details are set out in note 23.

Dividend

The Board considered the financial performance in 2020 and concluded that it is not appropriate to propose a final dividend; however, it remains committed to paying a progressive dividend in the future. The Board will review dividend payments regularly, taking into account the financial performance and financial position of the Group and we intend to recommence dividend payments as soon as circumstances permit.

Board changes

Richard Moat, who joined the Board in 2012, and Cathryn Riley who joined in 2014, will not be seeking re-election at the 2021 AGM in April and will stand down from the Board as non-executive directors at that time. We are pleased to announce that Richard Holmes will replace Richard Moat as the Senior Independent Director and Chair of the Audit and Risk Committee and Deborah Davis will replace Cathryn as the Remuneration Committee Chair with effect from the conclusion of the 2021 AGM, subject to their re-election as directors. The Board would like to thank Richard and Cathryn for their service, insight and contribution during their time at IPF and is confident that Richard and Deborah will prove to be worthy successors.

Outlook

Our business plays an important key role in society by providing credit responsibly to those who are underbanked or underserved, and there remains significant demand for affordable credit from this group of consumers in all our markets. As a more nimble, more cost-effective business than we were before the pandemic we remain well placed to satisfy this demand in the long term. Credit issued during 2021 to date continues to show encouraging trends with year-on-year improvements that are ahead of Q4 2020 despite renewed restrictions on people movement having an impact on customer demand, and we expect to progressively rebuild the receivables portfolio as the year unfolds. Our strategy is supported by our strong balance sheet and funding position, which will allow us to rebuild our European home credit business, capture the substantial growth opportunities in both Mexico home credit and IPF Digital, return the Group to full-year profitability in 2021 and deliver further growth thereafter.

Covid-19 impact on impairment

The application of IFRS 9 to the effects of Covid-19 had a significant impact on the Group's impairment accounting and charge in 2020. As reported in our half-year financial report, government-imposed restrictions on freedom of movement and the introduction of debt repayment moratoria, together with the anticipated economic impact of the pandemic on our customers, had a significant adverse impact on collection cash-flows in all our businesses. These events are unprecedented and, accordingly, we reviewed the appropriateness of our impairment modelling under IFRS 9 in the first half of the year. This included a full assessment of expected credit losses, including a forward-looking assessment of expected collection cash-flows. As a result, we applied overlays to our impairment models in order to calculate the expected impact of the pandemic on the Group's impairment charge. These overlays were refreshed at the year end.

Home credit impairment

In our home credit markets, the restrictions on freedom of movement resulted in agent service to customers being disrupted from mid-March through to the end of June, albeit with a reducing impact as the restrictions were progressively eased from May onwards. We implemented alternative payment options in most of our markets, which partially mitigated the reduction in customer repayments normally collected by agents. The opt-out repayment moratorium in Hungary had a more significant impact on performance than those implemented in other European markets, resulting in slower collections and an expectation of a larger increase in credit losses. In addition to these factors, some customers' incomes have been negatively impacted and this has reduced their capacity to make repayments.

The calculation of the expected credit loss ("ECL") is model-driven and is based on contractual arrears, thereby assuming that all missed collections are a result of credit quality deterioration and generating a disproportionately increased ECL. Therefore, for all lending issued before June 2020, we have reduced the modelled ECL based on historic customer roll-rates before calculating the increase in ECL arising from the pandemic.

This latter assessment is based on estimated future repayment patterns on a market-by-market basis, taking into account operational disruption, repayment moratoria and the expected recessionary impact. We then assessed the extent to which the reduction in cash-flows is likely to be permanent or temporary. The permanent reduction in cash-flows has been recorded as an increase in ECL, and this has resulted in an incremental impairment provision of £33 million. We expect temporarily missed repayments to be repaid at the end of the credit agreement, rather than at the point when agent service is resumed. The charges for lending are largely fixed and therefore these delayed cash flows have been discounted using the effective interest rate to arrive at a net present value. This has resulted in an additional impairment charge of £16 million. We expect this element of the incremental impairment charge to reverse during the next 12 months as the temporarily missed payments are collected from our customers. Impairment on lending from June 2020 onwards has been recorded using our standard impairment accounting models without applying these overlays due to the reduction in operational disruption and the tightened credit settings on new lending.

In addition to the increased impairment provisions resulting from the model overlays, a further £20 million impairment charge was taken in the home credit business to account for reduced collections during the first half of the year.

IPF Digital impairment
The key impacts of the pandemic on the digital business have been a reduction in the number of customers regularly paying more than their minimum monthly repayment and the disruption to forward-flow arrangements with debt purchasers.

Having reviewed the expected economic impact of the pandemic on our customers' debt repayment capacity and used this information to calculate the increased probability of customers defaulting, we recorded an appropriate impairment overlay provision. As a result of the pandemic, some of the forward-flow agreements we have with purchasers of our delinquent accounts have been disrupted. As these agreements are used to calculate loss given default rates ('LGD') which form an integral part of our impairment accounting, this has resulted in an increase in LGDs in all markets and an incremental impairment charge. The combined impact of the overlay provision and the increase in LGDs on the impairment charge was £11 million.

Alternative performance measures
This full-year Financial Report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide stakeholders with important additional information on our business. To support this we have included an accounting policy note on APMs in the notes to this full-year Financial Report, a glossary indicating the APMs that we use, an explanation of how they are calculated and how we use them, and a reconciliation of the APMs we use to a statutory measure, where relevant.

International Personal Finance plc

Consolidated income statement for the year ended 31 December

	Notes	**2020 Pre-exceptional items £m**	**2020 Exceptional items (note 9) £m**	**2020 £m**	2019 £m
Revenue	4	**661.3**	**-**	**661.3**	889.1
Impairment	4	**(247.6)**	**(2.5)**	**(250.1)**	(243.5)
Revenue less impairment		**413.7**	**(2.5)**	**411.2**	645.6
Finance costs	5	**(55.0)**	**8.2**	**(46.8)**	(63.5)
Other operating costs		**(108.7)**	**-**	**(108.7)**	(137.3)
Administrative expenses		**(278.8)**	**(17.6)**	**(296.4)**	(330.8)
Total costs		**(442.5)**	**(9.4)**	**(451.9)**	(531.6)
(Loss)/profit before taxation	4	**(28.8)**	**(11.9)**	**(40.7)**	114.0
Tax income/(expense) – UK		**2.3**	**0.1**	**2.4**	2.2
– Overseas		**(26.8)**	**0.9**	**(25.9)**	(44.4)
Tax (expense)/income	6	**(24.5)**	**1.0**	**(23.5)**	(42.2)
(Loss)/profit after taxation attributable to owners of the Company		**(53.3)**	**(10.9)**	**(64.2)**	71.8

(Loss)/earnings per share - statutory

	Notes	**2020 pence**	2019 pence
Basic	7	**(28.9)**	32.2
Diluted	7	**(27.4)**	30.3

(Loss)/earnings per share – pre-exceptional items

	Notes	**2020 pence**	2019 pence
Basic	7	**(24.0)**	32.2
Diluted	7	**(22.8)**	30.3

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

Consolidated statement of comprehensive income for the year ended 31 December

	2020 **£m**	2019 £m
(Loss)/profit after taxation attributable to owners of the Company	**(64.2)**	71.8
Other comprehensive (expense)/income		
Items that may subsequently be reclassified to income statement:		
Exchange losses on foreign currency translations	**(4.1)**	(42.2)
Net fair value gains – cash flow hedges	**1.3**	0.6
Tax charge on items that may be reclassified	**(0.3)**	(0.1)
Items that will not subsequently be reclassified to income statement:		
Actuarial losses on retirement benefit obligation	**(1.4)**	(1.7)
Tax credit on items that will not be reclassified	**0.3**	0.2
Other comprehensive expense net of taxation	**(4.2)**	(43.2)
Total comprehensive (expense)/income for the year attributable to owners of the Company	**(68.4)**	28.6

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

Balance sheet as at 31 December

	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	10	**24.4**	23.1
Intangible assets	11	**30.2**	43.2
Property, plant and equipment	12	**15.4**	20.0
Right-of-use assets	13	**17.5**	18.8
Amounts receivable from customers	15	**136.5**	245.3
Deferred tax assets	14	**135.7**	151.7
Non-current tax asset		**-**	34.2
Retirement benefit asset	18	**3.4**	3.4
		363.1	539.7
Current assets			
Amounts receivable from customers	15	**532.6**	728.3
Derivative financial instruments	17	**0.5**	0.3
Cash and cash equivalents		**116.3**	37.4
Other receivables		**9.9**	16.9
Current tax assets		**1.5**	0.1
		660.8	783.0
Total assets		**1,023.9**	1,322.7
Liabilities			
Current liabilities			
Borrowings	16	**(0.2)**	(112.7)
Derivative financial instruments	17	**(6.7)**	(16.2)
Trade and other payables		**(89.1)**	(123.9)
Provisions for liabilities & charges	19	**(19.2)**	-
Lease Liabilities	13	**(7.4)**	(8.7)
Current tax liabilities		**(13.4)**	(30.3)
		(136.0)	(291.8)
Non-current liabilities			
Deferred tax liabilities	14	**(13.8)**	(20.0)
Lease Liabilities	13	**(11.8)**	(10.8)
Borrowings	16	**(491.8)**	(563.7)
		(517.4)	(594.5)
Total liabilities		**(653.4)**	(886.3)
Net assets		**370.5**	436.4
Equity attributable to owners of the Company			
Called-up share capital		**23.4**	23.4
Other reserve		**(22.5)**	(22.5)
Foreign exchange reserve		**5.0**	9.1
Hedging reserve		**0.9**	(0.1)
Own shares		**(45.2)**	(46.1)
Capital redemption reserve		**2.3**	2.3
Retained earnings		**406.6**	470.3
Total equity		**370.5**	436.4

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

Statement of changes in equity

	Called-up share capital £m	Other reserve £m	Other reserves* £m	Retained earnings £m	Total equity £m
At 1 January 2019	23.4	(22.5)	7.9	424.2	433.0
Comprehensive income:					
Profit after taxation for the year	-	-	-	71.8	71.8
Other comprehensive (expense)/income:					
Exchange losses on foreign currency translation	-	-	(42.2)	-	(42.2)
Net fair value gains – cash flow hedges	-	-	0.6	-	0.6
Actuarial loss on retirement benefit obligation	-	-	-	(1.7)	(1.7)
Tax (charge)/credit on other comprehensive income	-	-	(0.1)	0.2	0.1
Total other comprehensive expense	-	-	(41.7)	(1.5)	(43.2)
Total comprehensive (expense)/income for the year	-	-	(41.7)	70.3	28.6
Transactions with owners:					
Share-based payment adjustment to reserves	-	-	-	4.6	4.6
Shares acquired by employee trust	-	-	(2.1)	-	(2.1)
Shares granted from treasury and employee trust	-	-	1.1	(1.1)	-
Dividends paid to Company shareholders	-	-	-	(27.7)	(27.7)
At 31 December 2019	23.4	(22.5)	(34.8)	470.3	436.4
At 1 January 2020	**23.4**	**(22.5)**	**(34.8)**	**470.3**	**436.4**
Comprehensive expense:					
Loss after taxation for the year	-	-	-	**(64.2)**	**(64.2)**
Other comprehensive (expense)/income:					
Exchange losses on foreign currency translation	-	-	**(4.1)**	-	**(4.1)**
Net fair value gains – cash flow hedges	-	-	**1.3**	-	**1.3**
Actuarial loss on retirement benefit obligation	-	-	-	**(1.4)**	**(1.4)**
Tax (charge)/credit on other comprehensive income	-	-	**(0.3)**	**0.3**	-
Total other comprehensive expense	-	-	**(3.1)**	**(1.1)**	**(4.2)**
Total comprehensive expense for the year	-	-	**(3.1)**	**(65.3)**	**(68.4)**
Transactions with owners:					
Share-based payment adjustment to reserves	-	-	-	**2.5**	**2.5**
Shares granted from treasury and employee trust	-	-	**0.9**	**(0.9)**	-
At 31 December 2020	**23.4**	**(22.5)**	**(37.0)**	**406.6**	**370.5**

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

Cash flow statement for the year ended 31 December

	2020	2019
	£m	£m
Cash flows from operating activities		
Cash generated from operating activities	**329.8**	169.2
Finance costs paid	**(54.7)**	(64.0)
Finance income received	**9.9**	-
Income tax paid	**(1.4)**	(41.0)
Net cash generated from operating activities	**283.6**	64.2
Cash flows from investing activities		
Purchases of intangible assets	**(11.7)**	(21.2)
Purchases of property, plant and equipment	**(3.8)**	(10.2)
Proceeds from sale of property, plant and equipment	**0.4**	0.2
Net cash used in investing activities	**(15.1)**	(31.2)
Net cash generated from operating and investing activities	**268.5**	33.0
Cash flows from financing activities		
Proceeds from borrowings	**311.3**	119.9
Repayment of borrowings	**(490.0)**	(120.3)
Principal elements of lease payments	**(10.9)**	(9.9)
Shares acquired by employee trust	**-**	(2.1)
Dividends paid to Company shareholders	**-**	(27.7)
Net cash used in financing activities	**(189.6)**	(40.1)
Net increase/(decrease) in cash and cash equivalents	**78.9**	(7.1)
Cash and cash equivalents at beginning of year	**37.4**	46.6
Exchange losses on cash and cash equivalents	**-**	(2.1)
Cash and cash equivalents at end of year	**116.3**	37.4

1. Basis of preparation

The financial information, which comprises the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, is derived from the full Group Financial Statements for the year ended 31 December 2020, which have been prepared in accordance with European Union endorsed International Financial Reporting Standards ('IFRSs') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. It does not constitute full Financial Statements within the meaning of section 434 of the Companies Act 2006.

Statutory Financial Statements for the year ended 31 December 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's annual general meeting. The auditor has reported on those Financial Statements: its reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly they continue to adopt the going concern basis in preparing this financial information (see note 24 for further details).

The accounting policies used in completing this financial information have been consistently applied in all periods shown. These accounting policies are detailed in the Group's Financial Statements for the year ended 31 December 2020 which can be found on the Group's website (www.ipfin.co.uk).

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2020 but do not have any material impact on the Group:

- Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7;
- Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16;
- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 Definition of a business; and
- Amendments to IAS 1 and IAS 8 Definition of material.

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

- IFRS 17 'Insurance contracts';
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- Amendments to IFRS 3 'Reference to the Conceptual Framework';
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current';
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling a Contract';
- Annual Improvements to IFRS Standards 2018-2020 – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture.

Exceptional items
Exceptional items are items that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the Group's underlying results.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of Consolidated Financial Statements requires the Group to make estimates and judgements that affect the application of policies and reported accounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Key sources of estimation uncertainty
In the application of the Group's accounting policies, the directors are required to make estimations that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

Revenue recognition
The estimate used in respect of revenue recognition is the methodology used to calculate the EIR. In order to determine the EIR applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based on historical data and are reviewed regularly. Based on a 3% variation in the EIR, it is estimated that the amounts receivable from customers would be higher/lower by £7.7 million (2019: £12.1 million). This sensitivity is based on historic fluctuations in EIRs.

Amounts receivable from customers
The Group reviews its portfolio of customer loans and receivables for impairment on a weekly or monthly basis. The Group reviews the most recent collections performance to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into stages based on days past due as this is considered to be the most reliable predictor of future payment performance. The level of impairment is calculated using historical payment performance to generate both the estimated expected loss and also the timing of future cash flows for each agreement. The expected loss is calculated using probability of default ('PD') and loss given default ('LGD') parameters.

The application of IFRS 9 to the effects of Covid-19 had a significant impact on the Group's impairment accounting and charge in 2020, and our post model overlays (PMOs) have been prepared to ensure that the impacts of the pandemic are included within the Group's impairment provisions, see below for further details. Impairment on lending from June 2020 onwards has been recorded using our standard impairment accounting models without applying these overlays due to the reduction in operational disruption and the tightened credit settings on new lending.

Impairment models are monitored regularly to test their continued capability to predict the timing and quantum of customer repayments in the context of the recent customer payment performance. The models used typically have a strong predictive capability reflecting the relatively stable nature of the business and therefore the actual performance does not usually vary significantly from the estimated performance. The models are ordinarily updated at least twice per year. Data that would normally be included within the periodic update this year contains Covid-19 data. This includes data from when there were restrictions on movements of agents and customers together with data driven by the tighter credit settings that were put in place as part of the Group's pandemic response strategy. This data is not considered to be representative of the expected future performance and therefore we have excluded it from our periodic update.

On the basis that the payment performance of customers could be different from the assumptions used in estimating expected losses and the future cash flows, an adjustment to the amounts receivable from customers may be required. A 5% increase/decrease in expected loss parameters would be a decrease/increase in amounts receivable from customers of £4.5 million. This level of estimated impact is based on historic fluctuations in performance compared to the models and is subject to impairment overlay provisions.

Covid-19 post model overlay (PMO) on amounts receivable from customers
As discussed on page 15 of this report, Covid-19 had a significant impact on our businesses in 2020. Government imposed restrictions on the freedom of movement and the introduction of debt repayment moratoria, together with the economic impact of the pandemic on our customers, had a significant adverse impact on collection cash flows in all our businesses. These events are unprecedented and, as a consequence, we have reviewed our impairment modelling under IFRS 9 to identify risks that are not fully reflected in the standard impairment models. This included a full assessment of expected credit losses, including a forward-looking assessment of expected collection cash flows. As a result, for home credit lending, issued before June 2020 and IPF Digital lending, we have prepared post model overlays (PMOs) to our impairment models in order to calculate the expected impact of the pandemic on the Group's impairment provisions. Based on management's current expectations, the impact of these PMOs was to increase impairment provisions at 31 December 2020 by £38.7 million as set out below.

	ECL £m	Discounting £m	Total £m
Home credit	**(17.1)**	**(16.4)**	**(33.5)**
IPF Digital	**(5.2)**	**-**	**(5.2)**
Total	**(22.3)**	**(16.4)**	**(38.7)**

Expected credit loss ('ECL')
Missed collections as a result of government imposed restrictions on the freedom of movement and the introduction of debt repayment moratoria is not considered to be an indicator of a significant increase in credit risk (SICR). However, our impairment models cannot distinguish between a missed payment arising from these factors and a missed payment arising from a customer not making a payment. Therefore, we have reduced the modelled ECL based on historic customer roll rates before calculating the increase in ECL arising from the pandemic. This latter assessment is based on estimated future repayment patterns on a market by market basis, taking into account operational disruption, debt repayment moratoria and the expected recessionary impact. We then assessed the extent to which the reduction in cash flows is likely to be permanent or temporary. The estimated permanent difference in cashflows has been recorded as an increase of £17.1 million in ECL in the Group's home credit businesses as a Covid-19 PMO.

In our digital businesses, in line with our home credit markets, we have reviewed the expected recessionary impact of the pandemic on our customers' debt repayment capacity. We used this information to calculate the increased probability of customers defaulting. The estimated increase in PD has been included as a £5.2 million Covid-19 PMO.

Discounting
We expect temporary missed repayments in our home credit businesses to be repaid at the end of the credit agreement, rather than at the point when agent service is resumed. The charges for lending are largely fixed and therefore these delayed cash flows have been discounted using the effective interest rate to arrive at a net present value. This results in an additional impairment provision of £16.4 million that is expected to unwind during the next 12 months as the temporary missed collections are collected from customers.

We have performed analysis on the ECL and discounting Covid-19 PMOs to show the estimated variation to amounts receivable from customers as a result of the key variables influencing ECL (namely operational disruption, repayment moratoria and recessionary) being different to management's current expectations based on the following collection scenarios:

- ECL – variations in the key variables resulting in a 3% increase/decrease in the ECL would result in an increase/decrease in the Covid-19 PMO of £9.3 million.

- Discounting – temporary missed repayments in home credit, that are assumed to be repaid at the end of the loan, being received three months later/earlier than forecast would result in an increase/decrease in the Covid-19 PMO of £7.2 million.

These variations reflect management's current assessment of a reasonable range of outcomes from the actual collections performance.

Polish early settlement rebates

The Regulatory update section of this report (page 13) sets out details of a comprehensive review being conducted by UOKiK, the Polish competition and consumer protection authority, of rebating practices by banks and other consumer credit providers on early loan settlement, including those of the Group's Polish businesses. We reviewed the likelihood of the resolution of this matter resulting in higher early settlement rebates being payable to customers that settled their agreements early before the balance sheet date. A number of risks and uncertainties remain, in particular with respect to future claims volumes relating to historic rebates paid and the nature of any customer contact exercise required. The total amount provided of £17.6 million (31 December 2019: £4.0 million) represents the Group's best estimate of the likely future cost of increasing historic customer rebates, based on its current strategy to achieve resolution. Whilst the volume of claims could differ from the estimates, the Group's expectation at this stage is that claims rates are unlikely to be more than 25% higher than the assumed rate.

Claims management charges in Spain

The operational review section of this report in relation to IPF Digital's New markets (page 13) makes reference to revenue contraction resulting from higher levels of claims management charges in Spain. We reviewed the charges by reference to the claims incidence experience and average cost of resolution in the Spanish business. The provision recorded of £8.0 million (split £6.4 million against receivables and £1.6 million in provisions) represent the Group's best estimate of future claims volumes and the cost of their management, based on current claims management methodology, together with current and future product plans. Whilst the future claims incidence and cost of management could differ from estimates, the Group's expectation at this stage is that overall costs are unlikely to be more than 25% higher than those assumed in the charges.

Tax

Estimations must be exercised in the calculation of the Group's tax provision, in particular with regard to the existence and extent of tax risks. This exercise of estimation with regards to the EU State Aid investigation, which is disclosed in note 32, could have a significant effect on the Financial Statements, as there are significant uncertainties in relation to the amount and timing of associated cash flows.

Deferred tax assets arise from timing differences between the accounting and tax treatment of revenue and impairment transactions and tax losses. Estimations must be made regarding the extent to which timing differences reverse and an assessment must be made of the extent to which future profits will be generated to absorb tax losses. A shortfall in profitability compared to current expectations may result in future adjustments to deferred tax asset balances

Critical accounting judgements

Accounting judgements have been made over whether the EU State Aid investigation requires a provision or disclosure as a contingent liability, see note 23 for further details.

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, 'APMs' which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

Each of the APMs, used by the Group are set out on pages 50 to 53 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports percentage change figures for all performance measures, other than profit or loss before taxation and earnings per share, after restating prior year figures at a constant exchange rate. The constant exchange rate, which is an APM, retranslates the previous year measures at the average actual periodic exchange rates used in the current financial year. These measures are presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory measures in order to derive APMs where relevant. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group.

2. Principal risks and uncertainties

In accordance with the Companies Act 2006, a description of the principal risks and uncertainties (and the mitigating factors in place in respect of these) is included below. Effective management of risks, uncertainties and opportunities is critical to our business in order to deliver long-term shareholder value and protect our people, assets and reputation. In 2020, we continued to face a challenging external environment, particularly from changing regulation, and the impact of issues arising from the Covid-19 pandemic. Internally, our operational governance framework and risk management processes are continually reviewed to ensure that where areas of improvement are identified, a plan of action is put in place and can become a key focus for the Board. The effectiveness of operating these processes is monitored by the Audit and Risk Committee on behalf of the Board.

Risk key

Risk environment	Risk appetite
↑ Risk environment improving	↑ Risk appetite increasing
↔ Risk environment remains stable	↔ Risk appetite stable
↓ Risk environment worsening	↓ Risk appetite decreasing

The risks facing the business by risk category are:

Risk	Relevance to strategy	Mitigation	Commentary
1 Regulatory			
↓ ↔ **Lead responsibility:** **Chief Executive Officer** We suffer losses or fail to optimise profitable growth due to a failure to operate in compliance with, or effectively anticipate changes in, all applicable laws and regulations (including data protection and privacy laws), or due to a regulator interpreting these in a different way. **Objective** We aim to ensure that effective arrangements are in place to enable us to comply with legal and regulatory obligations and take fully assessed and informed commercial risks.	**Impact** Changes in regulation, differences in interpretation or clarification of regulation, or changes in the enforcement of laws by regulators, courts or other bodies can lead to challenge of our products and/or practices. We monitor legal and regulatory developments to ensure we maintain compliance, remain competitive and provide value for our customers. **Likelihood** The likelihood of legal and regulatory change and the impact of challenge vary by market, but the majority have already introduced price legislation and strengthened consumer protection regulation, although there remains a risk that further changes may be made.	We have highly skilled and experienced legal, public affairs, compliance and privacy teams at Group level and in each of our markets They monitor political, legislative and regulatory developments and risks. Expert third-party advisors are used where necessary to support these efforts. We engage with regulators, legislators, politicians and other stakeholders. Active participation in relevant sector associations contributes to our monitoring, and influencing capabilities. Our compliance programme focuses on key consumer legislation including in relation to data privacy. Oversight of regulatory risks by the legal leadership team. Regular reporting to the Audit and Risk Committee on key regulatory and compliance risks.	In response to the pandemic, governments in several of our markets introduced temporary regulation, including price controls and debt repayment moratoria. We have a strong track record of responding successfully to regulatory changes while maintaining profitability, and engaging with regulators to ensure changes actually benefit our customers. Our swift response focused on operational resilience, flexible repayment options for customers, product modifications and credit risk management minimised the impact as far as possible. Legislation further tightening price controls in Finland limited the economic returns of lending in this market and the decision was taken to collect out the portfolio. In Poland, new market standards for early settlement rebates are expected to be implemented during the course of 2021. For more information see page 13.

Risk	Relevance to strategy	Mitigation	Commentary
2 Competition and product proposition			
↑ ↔ **Lead responsibility: Chief Executive Officer** We suffer losses or fail to optimise profitable growth through failure to be aware of and respond to the competitive environment or failing to ensure our proposition meets customer needs while we maintain product profitability. **Objective** We aim to ensure we understand competitive threats and deliver customer-focused products to drive profitable growth.	**Impact** In an environment where customer choice is growing, ensuring our product meets customers' needs is critical to delivering a sustainable business. **Likelihood** We continue to operate in highly competitive markets with regular new products and services being made available to our customer segment. The nature of competition varies by market.	Regular monitoring of competitors and their offerings, advertising and share of voice in our markets. Strategic planning and tactical actions are developed in response to competitive threats. Product development committees and processes in place across the Group to review the product development roadmap, manage product risks and develop new products, which meet customer needs and are compliant with relevant regulatory requirements.	Our markets continued to be highly competitive at the start of 2020 which eased from Q2 as a number of competitors scaled back operations and marketing due to funding challenges, economic caution or temporary regulation resulting from Covid-19. At the same time, more consumers have moved to borrowing online, accelerating take-up of new models, particularly those providing integrated credit and payment experiences. In response, IPF Digital extended its mobile wallet offering, which complements instalment loans and credit line offerings, providing banking-like services to customers. We focused product development on innovating to better respond to customer requirements and align our products to temporary regulation in our European home credit markets. This included offering lower value, shorter-term loans also reflecting the credit risk the pandemic has had on the income level of households and individuals. In Mexico, competition is relatively stable and is dominated by offline competitors who continue to expand territories and digitise elements of their customer journeys.
3 Taxation			
↔ ↔ **Lead responsibility: Chief Financial Officer** We suffer financial loss arising from a failure to comply with tax legislation or adoption of an interpretation of the law which cannot be sustained together with the risk of a higher future tax burden. **Objective** We aim to generate shareholder value through effective management of tax while acting as a good corporate citizen. We are committed to ensuring compliance with tax law and practice in all of the territories in which we operate.	**Impact** Against a backdrop of increasing fiscal challenges for most economies, many authorities are turning to corporate taxpayers to increase revenues, either via taxation reforms or through changes to interpretations of existing legislation. **Likelihood** The likelihood of changes or challenges to tax positions varies by market. This may increase due to Covid-19 budget deficits. Globally, OECD and EU-led developments may lead to further changes in tax law and practice and an increase in audits and enquiries into cross-border arrangements.	Tax strategy and policy in place. Qualified and experienced tax teams at Group level and in market. External advisers used for all material tax transactions in line with tax strategy. Binding rulings or clearances obtained from authorities where appropriate. Appropriate oversight at executive level over taxation matters.	In March 2020, the Warsaw District Administrative Court upheld our appeal against the Tax Chamber's decisions in respect of 2008 and 2009. The successful conclusion of the long-running Polish tax dispute resulted in full recovery of the tax paid together with repayment interest. Following this result there are no open tax audits in Poland. During 2020, tax audits in Hungary, Finland and Spain were closed with no material findings. We have an ongoing tax audit in Mexico. We await a decision of the General Court of the European Union regarding applications for the annulment of the European Commission's Decision on State Aid announced in April 2019. Further information regarding risks associated with the Group's finance company is set out in note 23.

Risk	Relevance to strategy	Mitigation	Commentary
4 Technology and change management			
↔ ↔ **Lead responsibility:** **Chief Executive Officer** We suffer losses or fail to optimise profitable growth due to a failure to develop and maintain effective technology solutions or manage key business projects in an effective manner. **Objective** We aim to effectively manage the design, delivery and benefits realisation of major technology and strategic business projects and deliver according to requirements, budgets and timescales. We look to maintain systems that are available to support the ongoing operations in the business.	**Impact** A core part of our strategy is to modernise our home credit operation and invest in digital developments. Effective management of the initiatives within this programme is essential. The Group is currently undergoing a large project programme which carries significant levels of inherent risk. Failure to deliver projects or maintain our IT estate could lead to issues in benefits realisation or business disruption. **Likelihood** Our project programme is complex, covering numerous markets. As such there is a level of risk associated with its delivery. Unforeseen outages can happen against key systems as a result of change or failures in technology.	Change management framework and process in place. Programmes are continually reviewed with strong governance of all major delivery activity. Ongoing reviews of our services and relationships with partners ensures effective service operations are maintained. Annual review undertaken to prioritise investment required in underlying technology ensures appropriateness of the underlying technology estate. A dedicated Technology Committee to oversee technology and change risks.	We recognise that the successful delivery of our strategy is dependent on effective change across the Group. In order to keep pace with technology advances and maintain our position as a leading non-banking financial institution in our markets, the change agenda we run each year, and especially those initiatives driven by IT, is significant. Our key focus in 2020 was to deliver agent mobile technology and provide support with the centralisation of our field administration centres. In addition, as a response to the pandemic, we introduced several alternative core digital processes, including online sales features on our agent app and remote collections facilities for home credit customers. To support these developments, an updated, more effective, change management framework and process was introduced across the Group.
5 People			
↔ ↔ **Lead responsibility:** **Chief Executive Officer** Our strategy is impacted by not having sufficient depth and quality of people or being unable to retain key people and treat them in accordance with our values and ethical standards. **Objective** We aim to have sufficient breadth of capabilities and depth of personnel to ensure that we can meet our strategic objectives.	**Impact** In order to achieve our strategic goals, we must continue to attract, engage, develop, retain and reward the right people. The very nature of people risk means that it is often difficult to reduce the frequency with which risks occur; however, our controls are aimed at lowering the impact of any risks. **Likelihood** Our processes, policies and practices are designed to reduce the likelihood of a significant impact with respect to people risk. The Group has strong governance around people risk including our people, organisation and planning process used to mitigate talent risks and our HR control environment.	Our HR control environment identifies key people risks and the key controls that we have in place to mitigate them. The key people-risks and commensurate controls cover: • Appropriate distribution of strategy-aligned objectives • Monitoring and action with regards to key people risks and issues • Key people-processes • Appropriate use of reward and compliance with delegated authority from the Remuneration Committee	In responding to the Covid-19 pandemic, we took the strategic decision to put the health and safety of our people first. It was also necessary to implement a risk management strategy to rightsize the organisation to support a smaller global business. Our people strategy to safeguard the organisation through Covid-19 comprises three pillars: I. our Global Care Plan was created to provide an end-to-end framework to ensure a global strategic umbrella for the health and safety of our people and their wellbeing; II. as well as protecting the health and safety of our field force, we took steps to protect earnings, adapt commission and incentive schemes and change performance programmes for our agents and customer service teams. These actions resulted in a stable people turnover outcome; and III. we stopped all discretionary and controllable people costs, including cancellation of bonus schemes, withdrawal of PSP, a global freeze on recruitment and cessation of development activities. We also undertook an organisational restructure to rightsize the business.

Risk	Relevance to strategy	Mitigation	Commentary
6 Business continuity and information security			
↔ ↔ **Lead responsibility: Chief Executive Officer** We suffer losses or fail to optimise profitable growth due to a failure of our systems, suppliers or processes or due to the loss, theft or corruption of information. **Objective** We aim to maintain adequate arrangements and controls that reduce the threat of service and business disruption and the risk of data loss to as low as reasonably practicable.	**Impact** We record, update and maintain data for each of our customers on a daily basis. The availability of this data, the continued operation of our systems and processes, and availability of our critical suppliers, are essential to the effective operation of our business and the security of our customer information. **Likelihood** While the external threat to our systems is increasing in the digital age, the tools in place reduce the likelihood of a significant failure or information loss.	There is periodic testing and ongoing monitoring of security and recovery capability for technology and premises. Skilled team with relevant specialist qualifications. A dedicated committee in place to oversee business continuity, information security, and technology and change risks.	The continuity of our core sales and collections processes has been significantly challenged during this pandemic. However, the significant focus on people safety has resulted in only very limited impact on business continuity risk. Another area with high potential inherent risk is the financial and operational robustness of our suppliers, and in particular, the technology suppliers on which our core systems depend. To manage this risk, we performed regular risk assessments on the key suppliers and have worked to develop internal capabilities as an effective contingency response. In response to the potential data breach risk generated by moving employees to remote working, all home credit markets implemented a range of security controls including Multi-factor Authentication which secures our remote working. IPF Digital is reviewing its security controls to minimise any future losses to the business.
7 Reputation			
↔ ↔ **Lead responsibility: Chief Executive Officer** We suffer financial or reputational damage due to our methods of operation, ill-informed comment or malpractice. **Objective** We aim to promote a positive reputation based on our ethical standards, our commitment to responsible lending via proactive engagement with all our stakeholders. with the aim to help the Group deliver its strategic objectives.	**Impact** Our reputation and that of the consumer lending sector can have an impact on both customer sentiment and the engagement of key stakeholders, impacting our ability to operate and serve our customer segment. Some elements of this risk relate to external factors that are beyond our influence. Controls in place have reduced residual risk. There is now limited ability to reduce this significantly. **Likelihood** We maintain strong relationships with key stakeholders in order to develop their understanding of our business model our role in society and economy and how we deliver services to our customers. This helps protect the business from unforeseen events that could damage our reputation.	Clearly defined corporate values and ethical standards are communicated throughout the organisation. Employees and agents undertake annual ethics e-learning training. Regular monitoring of key reputation drivers both internally and externally. Media strategy to support the key drivers of our business reputation and that of the non-banking financial institution sector. Strong oversight by the senior management group on reputation challenges.	We continued to receive awards for the way we conduct our business. We were recognised for delivering high standards of customer experience, as a top employer and for being a socially responsible business. At the heart of our home credit business around 17,000 agents are meeting and talking to our customers every week. Taking action to protect our agents and customers during the pandemic contributed to ensuring our business reputation was maintained throughout these challenging times. Our internal reputation tracking survey found 92% of employees and agents said that they like working for the business. This positive result is confirmation of our investment in reputation management and internal communication.

Risk	Relevance to strategy	Mitigation	Commentary
8 World economic environment			
↓ ↔ **Lead responsibility: Chief Financial Officer** We suffer financial loss as a result of a failure to identify and adapt to changing economic conditions adequately. **Objective** We aim to have business processes that allow us to respond to changes in economic conditions and optimise business performance.	**Impact** Changes in economic conditions may have an impact on our customers' ability to make repayments. This risk is led entirely by external factors that are not controllable and is driven by the business model and in particular the specifics of the markets in which we operate. **Likelihood** While we operate in numerous markets, the likelihood of a change in economic markets that we are unable to respond to, and that impacts our strategy is minimised by our short-term lending business models.	Treasury committees review economic indicators. Monitoring of macroeconomic conditions, geopolitical events on financial markets and national news briefings. Strong, personal customer relationships inform us of individual customer circumstances.	The fast-paced growth of unsecured consumer lending in previous years decreased during 2020 due to the pandemic. The pandemic also led to lower levels of consumer confidence, reduced household spending and financial institutions, in particular banks, being less willing to lend money in these uncertain times. As a result, central banks across the globe lowered reference interest rates to encourage consumption. Despite a further wave of Covid-19 cases in Q4 2020, news of several successful vaccine tests raised expectations that economic activity will bounce back significantly in 2021 together with increased demand for consumer credit. In recent years, our risk universe has evolved, and world economic risk factors are now considered as specific risks impacting our business in other principal risks, like credit, funding and taxation. As a result, starting in 2021, we will remove the world economic risk category from the principal risks list and reflect these macroeconomic factors in the above-mentioned categories.
9 Safety			
↔ ↔ **Lead responsibility: Chief Executive Officer** The risk of personal injury or harm to our agents or employees. **Objective** We aim to maintain the highest standards and controls to reduce the risk to the lowest level as is reasonably practicable.	**Impact** A significant element of our business model involves our agents and employees interacting with our customers in their homes or travelling to numerous locations daily. Their safety while performing their role is paramount to us. **Likelihood** Safety risks typically arise from the behaviour of individuals both internal and external to the business and, therefore, it is not possible to remove the risk entirely with the current business model involving 17,000 agents. Improvements, however, are constantly sought to reduce the risk where possible.	Market safety committees and safety management systems in place based on internationally recognised standards. Annual safety survey. Biannual risk assessment for each agency including mitigation planning and field safety training. Annual self-certification of safety compliance by managers. Regular branch safety meetings and safety awareness campaigns. Role-specific training and competence.	The safety of our people, particularly agents, was a key risk management area during 2020. While we provided our customers with alternative payment facilities, most chose to return to repaying their agent when people movement restrictions were lifted. In response, we concentrated our efforts on implementing systems of work to keep our agents safe including extensive Covid-19 prevention training and the provision of PPE. Safety committees met frequently across the Group providing assurance and oversight of health and safety risk management. We hold the ISO 45001 Occupational Health and Safety Management Standard in all European home credit businesses with a plan for our Mexico home credit business to enter the ISO 45001 accreditation process in the second half of 2021. We have a safety strategy specifically for our Mexico home credit business where inherent risks are greater than those in Europe both in terms of likelihood and impact.

Risk	Relevance to strategy	Mitigation	Commentary
10 Funding, liquidity, market and counterparty			
↑ ↔ **Lead responsibility: Chief Financial Officer** The risk of insufficient availability of funding, unfavourable pricing, a breach of debt facility covenants, or that performance is significantly impacted by interest rate or currency movements, or failure of a banking counterparty. **Objective** We aim to maintain a robust funding position, and to limit the impact of interest rate and currency movements and exposure to financial counterparties.	**Impact** Funding at appropriate cost and on appropriate terms, and management of financial market risk, are necessary for the future growth of the business. **Likelihood** Board-approved policies require us to maintain a resilient funding position with good headroom on undrawn bank facilities, appropriate hedging of market risk, and appropriate limits to counterparty risk. The residual risk after the mitigation is in place represents the impact of changes in financial markets on the Group's funding position and the period of time until the bonds mature.	Adherence to Board-approved policies monitored through the Treasury Committee, finance leadership team and regular reporting to the Board. Funding plans presented as part of budget planning. Senior management group oversight. Strong relationships maintained with debt providers.	The refinancing of the Group's Eurobond was completed in November 2020, together with amendments to covenants on the Sterling and Swedish Krona bonds, and the Group's bank facilities. The impact of Covid-19 on the financial markets and our trading performance resulted in an increased cost of this funding. In order to protect the business, we swiftly implemented a successful liquidity management strategy as restrictions on people movement and debt moratoria adversely impacted collections effectiveness. Lending was restricted and we took effective action to manage costs and preserve cash. During the first half of the year, the Group's credit ratings were reaffirmed by Moody's and Fitch Ratings at Ba3 and BB respectively. Moody's maintained its rating and stable outlook in May. Fitch Ratings subsequently downgraded its rating to BB- with negative outlook. The Group will continue to be funded from a combination of equity, retained earnings, bond issues and bank facilities. Hedging of market risk and limits on counterparty risk are in line with Board-approved policies.

Risk	Relevance to strategy	Mitigation	Commentary
11 Credit			
↓ ↔ **Lead responsibility: Chief Executive Officer** The risk of the Group suffering financial loss if its customers fail to meet their contracted obligations or the Group failing to optimise profitable business opportunities because of its credit, collection or fraud strategies and processes. **Objective** To maintain robust credit and collections policies and regularly monitor credit performance.	**Impact** With the intended growth plans for IPF Digital and Mexico home credit, it is important that we retain control of credit losses in order to achieve our intended returns. For the European home credit businesses, we focus on writing profitable business to deliver strong returns to invest in building a long-term sustainable future. The nature of the business is such that the financial impact of credit risk, even at appetite levels, is substantial. Reducing credit risk further could result in reduced revenue and increased cost ratios. For new businesses, credit risk is higher due to the lack of historical data our credit scorecards rely upon to make adequate lending decisions and a higher proportion of new customers than in the established markets. **Likelihood** In normal times, our control environment means that we will see issues quickly and the systems in place mean that we can change credit settings quickly, and therefore the likelihood of suffering large losses is low. However, the unprecedented impact of Covid-19 caused significant disruption and resulted in impairment moving outside our target range.	A comprehensive credit control framework developed using data from years of experience operating in our specific customer segment and the markets in which we operate. Weekly credit reporting on the quality of lending at the time of issue as well as the overall portfolio. This feeds into weekly performance calls between each business and the Group credit director. Monthly local credit committees, a monthly Group credit committee and monthly performance calls between each business and the Group management team. When a change is introduced, the credit systems allow for a testing approach that compares the current 'champion' regime against the new 'challenger'. Scorecard and portfolio quality monitoring. A comprehensive control framework which covers the internal and external fraud risks along with anti-money laundering supported by roles and responsibilities covering frontline controls monitoring and reporting on results and audit of the control framework. Specific controls to cover anti-bribery.	In contrast to the positive start to 2020, as the Covid-19 pandemic took hold we took the decision to optimise collections and tighten credit rules significantly in order to protect liquidity. This prudent approach resulted in a reduction in credit issued but has provided a solid foundation on which we will rebuild the business. We modified our credit risk parameters to ensure we lend to our highest-quality customers, that fit our normal risk profiles but being aware that those profiles might change. Another risk factor impacting our business results is the capacity and availability of debt sale partners across the Group. Many experienced difficult trading and offers either stopped or reduced in price. Credit control actions taken in Mexico home credit and IPF Digital's new markets in the last two years delivered improved credit quality prior to the pandemic.

3. Related parties

The Group has not entered into any material transactions with related parties during the year ended 31 December 2020.

4. Segmental analysis

Geographical segments

	2020	2019
	£m	£m
Revenue		
European home credit	**363.4**	452.2
Mexico home credit	**157.1**	247.6
Digital	**140.8**	189.3
Revenue	**661.3**	889.1
Impairment		
European home credit	**132.3**	56.0
Mexico home credit	**53.0**	102.3
Digital	**62.3**	85.2
Impairment – pre-exceptional item	**247.6**	243.5
Exceptional item	**2.5**	-
Impairment	**250.1**	243.5
(Loss)/profit before taxation		
European home credit	**(13.6)**	115.1
Mexico home credit	**3.5**	10.5
Digital	**(6.0)**	3.2
Central costs*	**(12.7)**	(14.8)
(Loss)/profit before taxation	**(28.8)**	114.0
Exceptional items	**(11.9)**	-
(Loss)/profit before taxation	**(40.7)**	114.0

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

4. Segmental analysis (continued)

	2020	2019
	£m	£m
Segment assets		
European home credit	**507.0**	710.0
Mexico home credit	**170.2**	230.3
Digital	**202.5**	314.9
UK	**144.2**	67.5
Total	**1,023.9**	1,322.7

Segment liabilities		
European home credit	**275.7**	297.2
Mexico home credit	**76.2**	147.0
Digital	**138.4**	225.8
UK	**163.1**	216.3
Total	**653.4**	886.3

	2020	2019
	£m	£m
Capital Expenditure (note 12)		
European home credit	**3.0**	7.5
Mexico home credit	**0.5**	1.8
Digital	**0.3**	0.9
Total	**3.8**	10.2

	2020	2019
	£m	£m
Depreciation (note 12)		
European home credit	**5.0**	5.4
Mexico home credit	**1.4**	2.1
Digital	**0.6**	0.4
UK	**0.2**	0.6
Total	**7.2**	8.5

4. Segmental analysis (continued)

	2020	2019
	£m	£m
Expenditure on intangible assets (note 11)		
European home credit	**-**	-
Mexico home credit	**-**	-
Digital	**4.8**	12.8
UK	**6.9**	8.4
Total	**11.7**	21.2

	2020	2019
	£m	£m
Amortisation (note 11)		
European home credit	**-**	-
Mexico home credit	**-**	-
Digital	**15.9**	5.7
UK	**10.0**	9.1
Total	**25.9**	14.8

5. Finance Costs

	2020	2019
	£m	£m
Interest payable on borrowings	**55.2**	62.0
Interest payable on lease liabilities	**1.5**	1.5
Interest income	**(9.9)**	-
Total	**46.8**	63.5

Interest income was received in respect of the successful appeal against the 2008 and 2009 tax decisions, £8.2 million of this income, which relates to the period from January 2017 to December 2019 has been treated as an exceptional item (see note 9 for further details).

6. Tax expense

The taxation charge on the post-exceptional loss for 2020 is £23.5m. The pre-exceptional tax charge is £24.5 million. The tax charge arises from a combination of factors but is largely driven by the non-tax deductible impairment charges, liability to certain taxes that are computed with reference to profits for prior periods rather than current year, and the write-off of deferred tax assets.

Tax paid in the cashflow statement is net of £35.1 million repaid in respect of the successful appeal against the 2008 and 2009 tax decisions. The Group is subject to a tax audit in Mexico (regarding 2017).

7. (Loss)/earnings per share

	2020 pence	2019 pence
Basic (L)/EPS	**(28.9)**	32.2
Dilutive effect of awards	**1.5**	(1.9)
Diluted (L)/EPS	**(27.4)**	30.3

Basic (loss)/earnings per share ('(L)/EPS') is calculated by dividing the loss attributable to shareholders of £64.2 million (31 December 2019: profit of £71.8 million) by the weighted average number of shares in issue during the period of 222.4 million which has been adjusted to exclude the weighted average number of shares held in treasury and by the employee trust (31 December 2019: 223.1 million).

For diluted EPS the weighted average number of shares has been adjusted to 234.1 million (31 December 2019: 237.1 million) to assume conversion of all dilutive potential ordinary share options relating to employees of the Group.

8. Dividends

Dividend per share

	2020 pence	2019 pence
Interim dividend	-	4.6
Final proposed dividend	-	7.8
Total dividend	-	12.4

Dividends paid

	2020 £m	2019 £m
Interim dividend of nil pence per share (2019: interim dividend of 4.6 pence per share)	-	10.3
Final 2019 dividend of nil pence per share (2019: final 2018 dividend of 7.8 pence per share)	-	17.4
Total dividends paid	-	27.7

The Board considered the financial performance in 2020 and concluded that it is not appropriate to propose a final dividend; however, it remains committed to paying a progressive dividend in the future. The Board will review dividend payments regularly, taking into account the financial performance and financial position of the Group and we intend to recommence dividend payments as soon as circumstances permit. (2019: full-year dividend 12.4 pence per share).

9. Exceptional Items

The income statement includes an exceptional loss of £10.9 million which comprises a pre-tax exceptional loss of £11.9 million and an exceptional tax credit of £1.0 million.

	Pre-tax £m	Tax £m	Post-tax £m
Finland closure	(10.6)	(1.1)	(11.7)
Restructuring costs	(9.5)	2.1	(7.4)
Interest income	8.2	-	8.2
Exceptional items	(11.9)	1.0	(10.9)

The decision to close our business in Finland and to collect out the portfolio following a tightening of the rate cap resulted in a loss of £11.7 million. It comprises a £10.6 million charge against loss before tax and the write-off of a deferred tax asset of £1.1 million that we no longer expect to be realised. The pre-tax loss comprises a provision taken against the carrying value of the receivables book based on our best estimate of the value of collections of £2.5 million and £8.1 million from accelerated amortisation of intangible assets. The restructuring charge of £9.5 million arose in connection with rightsizing exercises that were conducted in 2020 and there is an associated tax credit of £2.1 million relating to this item. In addition, the profit and loss account includes exceptional non-taxable interest income of £8.2 million, relating to the interest accrued for the period up to 31 December 2019 on the payments to the Polish tax authority made in January 2017 in respect of the 2008 and 2009 cases which were refunded in 2020.

10. Goodwill

	2020 £m	2019 £m
Net book value at 1 January	**23.1**	24.5
Exchange adjustments	**1.3**	(1.4)
Net book value at 31 December	**24.4**	23.1

Goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. We adopt discount rates which reflect the time value of money and the risks specific to the legacy MCB business. The cash flow forecasts are based on the most recent financial budgets approved by the Board. The rate used to discount the forecast cash flows is 10% (2019: 9%). The discount rate would need to increase to 16% before indicating that part of the goodwill may be impaired.

11. Intangible assets

	2020	2019
	£m	£m
Net book value at 1 January	**43.2**	38.0
Additions	**11.7**	21.2
Amortisation	**(25.9)**	(14.8)
Exchange adjustments	**1.2**	(1.2)
Net book value at 31 December	**30.2**	43.2

Intangible assets comprise computer software and are a mixture of self-developed and purchased assets. All purchased assets have had further capitalised development on them, meaning it is not possible to disaggregate fully between the relevant intangible categories.

£8.1 million of amortisation of intangible assets is accelerated amortisation relating to the decision to close our business in Finland, this has been treated as an exceptional item (see note 9).

12. Property, plant and equipment

	2020	2019
	£m	£m
Net book value at 1 January	**20.0**	19.9
Exchange adjustments	**(0.6)**	(0.9)
Additions	**3.8**	10.2
Disposals	**(0.6)**	(0.7)
Depreciation	**(7.2)**	(8.5)
Net book value at 31 December	**15.4**	20.0

As at 31 December 2020 the Group had £2.6 million of capital expenditure commitments contracted with third parties that were not provided for (2019: £2.7 million).

13. Right-of-use assets and lease liabilities

The movement in the right-of-use assets in the period is as follows:

Right-of-use assets

	2020	**2019**
	£m	**£m**
Net book value at 1 January	**18.8**	**21.5**
Exchange adjustments	**(0.5)**	**(0.7)**
Additions	**6.0**	**6.2**
Modifications	**3.6**	**0.9**
Depreciation	**(9.9)**	**(9.1)**
Impairment	**(0.5)**	**-**
Net book value at 31 December	**17.5**	**18.8**

The recognised right-of-use assets relate to the following types of assets:

	2020	2019
	£m	£m
Properties	**10.5**	12.4
Motor Vehicles	**6.9**	6.4
Equipment	**0.1**	-
Total right-of-use assets	**17.5**	18.8

The movement in the lease liability in the period is as follows:

Lease Liability

	2020	2019
	£m	£m
Lease liability at 1 January	**19.5**	21.5
Exchange adjustments	**(0.5)**	(0.7)
Additions	**9.6**	7.1
Interest	**1.5**	1.5
Lease payments	**(10.9)**	(9.9)
Lease liability at 31 December	**19.2**	19.5
Analysed as:		
Current	**7.4**	8.7
Non-current:		
- between one and five years	**11.1**	10.6
- greater than five years	**0.7**	0.2
	11.8	10.8
Lease liability at 31 December	**19.2**	19.5

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the rate implicit in the lease, or if that rate cannot be readily determined, at the lessee's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 31 December 2020 was 7.4%.

The amounts recognised in profit and loss are as follows:

	2020	2019
	£m	£m
Depreciation on right-of-use assets	**9.9**	9.1
Interest expense on lease liabilities	**1.5**	1.5
Expense relating to short term leases	**1.6**	2.5
Expense relating to leases of low value assets	**0.1**	0.4
Amounts recognised in profit and loss	**13.1**	13.5

The total cash outflow in the year in respect of lease contracts is £11.4m (2019: £13.1m).

14. Deferred tax assets

Deferred tax assets have been recognised in respect of tax losses and other temporary timing differences (principally relating to recognition of revenue and impairment) to the extent that it is probable that these assets will be utilised against future taxable profits. No deferred tax liability is recognised on temporary differences of £15.4 million (2019: £nil) relating to the unremitted earnings of the Czech and Romanian subsidiaries on which dividend withholding tax may arise, as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

15. Amounts receivable from customers

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

	2020 £m	2019 £m
Polish zloty	**225.3**	339.7
Czech crown	**50.9**	68.6
Euro	**117.0**	178.2
Hungarian forint	**89.9**	135.6
Mexican peso	**100.8**	158.1
Romanian leu	**62.1**	70.3
Australian Dollar	**23.1**	23.1
Total receivables	**669.1**	973.6

Amounts receivable from customers are held at amortised cost and are equal to the expected future cash flows receivable discounted at the average effective interest rate of 96% (2019: 105%). All amounts receivable from customers are at fixed interest rates. The average period to maturity of the amounts receivable from customers is 11.1 months (2019: 12.2 months).

Determining an increase in credit risk since initial recognition

IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1) and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

When determining whether the risk of default has increased significantly since initial recognition the Group considers both quantitative and qualitative information based on the Group's historical experience.

The approach to identifying significant increases in credit risk is consistent across the Group's products. In addition, as a backstop, the Group considers that a significant increase in credit risk occurs when an asset is more than 30 days past due.

Financial instruments are moved back to stage 1 once they no longer meet the criteria for a significant increase in credit risk.

Definition of default and credit impaired assets

The Group defines a financial instrument as in default, which is fully-aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- Quantitative criteria: the customer is more than 90 days past due on their contractual payments in home credit and 60 days past due on their contractual payments in IPF Digital;
- Qualitative criteria: indication that there is a measurable movement in the estimated future cash flows from a group of financial assets. For example, if prospective legislative changes are considered to impact the collections performance of customers.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Group's expected credit loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

The breakdown of receivables by stage is as follows:

2020	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total net receivables £m**
Home credit	**309.3**	**51.9**	**143.0**	**504.2**
IPF Digital	**157.2**	**6.2**	**1.5**	**164.9**
Group	**466.5**	**58.1**	**144.5**	**669.1**

2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total net receivables £m
Home credit	448.8	85.7	186.9	721.4
IPF Digital	232.5	18.8	0.9	252.2
Group	681.3	104.5	187.8	973.6

The Group has one class of loan receivable and no collateral is held in respect of any customer receivables.

16. Borrowing facilities and borrowings

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

	2020		2019	
	Borrowings	**Facilities**	Borrowings	Facilities
	£m	**£m**	£m	£m
Repayable:				
– in less than one year	**0.2**	**85.8**	112.7	195.2
– between one and two years	**74.3**	**104.4**	366.7	424.9
– between two and five years	**417.5**	**433.8**	197.0	241.5
	491.8	**538.2**	563.7	666.4
Total borrowings	**492.0**	**624.0**	676.4	861.6

Total undrawn facilities as at 31 December 2020 were £124.6 million (2019: £182.4 million), excluding £7.4 million unamortised arrangement fees and issue discount (2019: £2.8 million).

17. Derivative financial instruments

At 31 December 2020 the Group had an asset of £0.5 million and a liability of £6.7 million (2019: £0.3 million asset and £16.2 million liability) in respect of foreign currency contracts. Foreign currency contracts are in place to hedge foreign currency cash flows. Where these cash flow hedges are effective, in accordance with IFRS, movements in their fair value are taken directly to reserves.

18. Retirement benefit asset

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

	2020	2019
	£m	£m
Diversified growth funds	**8.4**	6.9
Corporate bonds	**20.4**	18.3
Liability driven investments	**23.0**	18.7
Other	**0.4**	1.9
Total fair value of scheme assets	**52.2**	45.8
Present value of funded defined benefit obligations	**(48.8)**	(42.4)
Net asset recognised in the balance sheet	**3.4**	3.4

The credit recognised in the income statement in respect of defined benefit pension costs is £0.5 million (2019: £0.1 million). This credit includes a past service credit of £0.4 million due to a Pension Increase Exchange exercise that took place during 2020.

19. Provisions for liabilities and charges

The Group receives claims brought by or on behalf of current and former customers in connection with its past conduct. Where significant, provisions are held against the costs expected to be incurred in relation to these matters. Customer redress provisions of £19.2 million represent the Group's best estimate of the costs that are expected to be incurred in relation to early settlement rebates in Poland (2020: £17.6 million; 2019: £4.0 million, included in trade and other payables) and claims management charges incurred in Spain (2020: £1.6 million; 2019: £nil). All claims are expected to be settled within 12 months of the balance sheet date. Further details are included on page 26.

20. Fair values of financial assets and liabilities

IFRS 13 requires disclosure of fair value measurements of derivative financial instruments by level of the following fair value measurement hierarchy:

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

With the exception of derivatives, which are held at fair value, amounts receivable from customers, and bonds, the carrying value of all other financial assets and liabilities (which are short-term in nature) is considered to be a reasonable approximation of their fair value. Details of the significant assumptions made in determining the fair value of amounts receivable from customers and bonds are included below, along with the fair value of other Group assets and liabilities.

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

	2020		2019	
	Fair value	**Carrying value**	Fair value	Carrying value
	£m	**£m**	£m	£m
Financial assets				
Amounts receivable from customers	**908.8**	**669.1**	1,345.6	973.6
	908.8	**669.1**	1,345.6	973.6
Financial liabilities				
Bonds	**405.4**	**415.9**	533.4	539.1
Bank borrowings	**76.1**	**76.1**	137.3	137.3
	481.5	**492.0**	670.7	676.4

The fair value of amounts receivable from customers has been derived by discounting expected future cash flows (as used to calculate the carrying value of amounts due from customers), net of collection costs, at the Group's weighted average cost of capital which we estimate to be 10% (2019: 9%) which is assumed to be a proxy for the discount rate that a market participant would use to price the asset.

Under IFRS 13 'Fair value measurement', receivables are classed as level 3 as their fair value is calculated using future cash flows that are unobservable inputs.

The fair value of the bonds has been calculated by reference to their market value where market prices are available.

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

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 their fair value.

21. Reconciliation of (loss)/profit after taxation to cash generated from operating activities

	2020	2019
	£m	£m
(Loss)/profit after taxation from operations	**(64.2)**	71.8
Adjusted for:		
Tax charge	**23.5**	42.2
Finance costs	**56.7**	63.5
Finance income	**(9.9)**	-
Share-based payment charge	**1.1**	2.4
Depreciation of property, plant and equipment (note 12)	**7.2**	8.5
Loss on disposal of property, plant and equipment (note 12)	**0.2**	0.5
Depreciation of right-of-use assets (note 13)	**9.9**	9.1
Impairment of right-of-use assets (note 13)	**0.5**	-
Amortisation of intangible assets (note 11)	**25.9**	14.8
Short term and low value lease costs (note 13)	**1.7**	2.9
Changes in operating assets and liabilities:		
Decrease/(Increase) in amounts receivable from customers	**294.9**	(34.3)
Decrease/(Increase) in other receivables	**4.1**	(3.7)
Decrease in trade and other payables	**(31.2)**	(18.3)
Change in provisions	**19.2**	-
Change in retirement benefit asset	**(1.4)**	(1.0)
(Decrease)/increase in derivative financial instrument liabilities	**(8.4)**	10.8
Cash generated from operating activities	**329.8**	169.2

22. Average and closing foreign exchange rates

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

	Average 2020	**Closing 2020**	Average 2019	Closing 2019
Polish zloty	**5.0**	**5.1**	4.9	5.0
Czech crown	**30.1**	**29.3**	29.2	30.1
Euro	**1.1**	**1.1**	1.1	1.2
Hungarian forint	**399.0**	**405.7**	370.0	391.0
Mexican peso	**28.3**	**27.1**	24.6	25.0
Romanian leu	**5.5**	**5.4**	5.4	5.7
Australian dollar	**1.8**	**1.8**	1.8	1.9

The £4.1 million exchange loss (2019: loss of £42.2 million) on foreign currency translations shown within the statement of comprehensive income arises on retranslation of net assets denominated in currencies other than sterling, due to the change in foreign exchange rates against sterling between December 2019 and December 2020 shown in the table above.

23. Contingent Liability Note

State Aid investigation

In late 2017 the European Commission (EC) opened a State Aid investigation into the Group Financing Exemption contained in the UK's controlled foreign company rules, which were introduced in 2013. In April 2019 the EC announced its finding that the Group Financing Exemption is partially incompatible with EU State Aid rules. In common with other UK-based international companies whose intra-group finance arrangements are in line with the UK's controlled foreign company rules, the Group is affected by this decision. On 12 February 2021 HMRC issued a Charging Notice, following the introduction of new legislation in December 2020 empowering HMRC to issue such Notices in order to collect alleged unlawful State Aid. The Charging Notice requires a payment of £14.2 million with respect to accounting periods ended 2013 to 2018, which was paid in February 2021, with a further amount of interest estimated at c. £1.3 million payable in due course. The payment of this amount is a procedural matter, and the new law does not allow for postponement. The company is appealing the Charging Notice on the grounds of the quantum assessed.

The UK government has filed an annulment application before the General Court of the European Union. In common with a number of other affected taxpayers, IPF has also filed its own annulment application. Based on legal advice received regarding the strength of the technical position set out in the annulment applications, it is expected to be more likely than not that the payment of alleged State Aid that the Group has to make under the Charging Notice will ultimately be repaid and therefore no provision has been recorded in the Financial Statements.

As a separate issue, HMRC has initiated a review of the Group's finance company's compliance with certain conditions under the UK domestic tax rules to confirm whether the company is eligible for the benefits of the Group Financing Exemption which it has claimed in its historic tax returns. IPF believes that all conditions have been complied with and have sought legal advice with regard to the interpretation of the relevant legislative condition. The legal advice has confirmed IPF's view and assessed that, in the event that HMRC were to take the matter to Tribunal, it is more likely than not that the company would succeed in defending its position. In the unexpected event that HMRC were to conclude that the company is not in compliance with the conditions and to pursue the matter in Tribunal, and won, the amount at stake for years up to and including 2018 is £7.3 million. This domestic tax issue and the State Aid issue are mutually exclusive, and the UK legislation implemented in December 2020 and referred to above includes provisions to ensure no double charge to tax arises. It is of note that currently HMRC have simply asked for information and no challenge has been made to the company's filing position.

24. Going concern

In considering whether the Group is a going concern, the Board has taken into account the Group's 2021 business plan, its principal risks (with particular reference to regulatory risks), and the expected trajectory of recovery from the Covid-19 pandemic. The 2021 business plan includes the budget for the year ending 31 December 2021 and forecasts for the two years to 31 December 2023 and includes projected profit and loss, balance sheet, cash flows, borrowings, headroom against debt facilities and funding requirements. These forecasts represent the best estimate of the expected recovery from the impact that Covid-19 had on the Group's businesses, and in particular the evolution of credit issuance and collection cash flows. The forecasts assume that debt repayment moratoria are not extended and temporary price controls introduced in Poland return to historical levels on 1 July 2021, based on the sunset clause included in the implementing legislation.

The financial forecasts in the business plan have been stress tested in a range of downside scenarios to assess the impact on future profitability, funding requirements and covenant compliance. The scenarios reflect the crystallisation of the Group's principal risks (with particular reference to regulatory risks) as outlined in note 2 and evaluate the impact of a more challenging recovery from the impact of the Covid-19 pandemic than assumed in the business plan. Consideration has also been given to multiple risks crystallising concurrently and the availability of mitigating actions that could be taken to reduce the impact of the identified risks. In addition, we examined a reverse stress test on the financial forecasts to assess the extent to which a recession would need to impact our operational performance in order to breach a covenant. This showed that net revenue would need to deteriorate significantly from the financial forecast and the Directors have a reasonable expectation that it is unlikely to deteriorate to this extent.

At 31 December 2020, the Group had £210 million of non-operational cash and headroom against its debt facilities (comprising a range of bonds and bank facilities), which have a weighted average maturity of 3.3 years. The total debt facilities as at 31 December 2020 amounted to £624 million of which £40 million is uncommitted and £86 million is due for renewal over the next 12 months. These debt facilities, together with a successful track record of accessing debt capital markets over a long period (including periods with challenging macroeconomic conditions and a changing regulatory environment), are sufficient to fund business requirements for the foreseeable future (12 months from the date of approval of the Financial Statements). Taking these factors into account, together with regulatory risks set out in note 2, the Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future (12 months from the date of approval of the Financial Statements). For this reason, the Board has adopted the going concern basis in preparing the Annual Report and Financial Statements.

Responsibility statement

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

It is given by each of the directors as at the date of this report, namely: Stuart Sinclair, Chairman; Gerard Ryan, Chief Executive Officer; Justin Lockwood, Chief Financial Officer; Richard Moat, Senior independent non-executive director; Richard Holmes, non-executive director; Deborah Davis, non-executive director; John Mangelaars, non-executive director; Cathryn Riley, non-executive director, and Bronwyn Syiek, non-executive director.

To the best of each director's knowledge:

a) the financial information, prepared in accordance with the IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Alternative performance measures

This financial report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use, where relevant, and a glossary indicating the APMs that we use, an explanation of how they are calculated and why we use them.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures			
Credit issued growth (%)	None	Not applicable	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business. Credit issued growth is the period-on-period change in this metric which is calculated by retranslating the previous year's credit issued at the average actual exchange rates used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).
Average net receivables (£m)	None	Not applicable	Average net receivables are the average amounts receivable from customers translated at the average monthly actual exchange rate (constant exchange rates). This measure is presented to illustrate the change in amounts receivable from customers on a consistent basis with revenue growth.
Average net receivables growth at constant exchange rates (%)	None	Not applicable	Average net receivables growth is the period-on-period change in average net receivables which is calculated by retranslating the previous year's average net receivables at the average actual exchange rates used in the current financial year. This ensures that the measure is presented having eliminated the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).
Revenue growth at constant exchange rates (%)	None	Not applicable	The period-on-period change in revenue which is calculated by retranslating the previous year's revenue at the average actual exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results (constant exchange rates).

Alternative performance measures (continued)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Impairment as a percentage of revenue (%)	None	Not applicable	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business. This measure is reported on a rolling annual basis (annualised).
Cost-income ratio (%)	None	Not applicable	The cost-income ratio is other costs divided by reported revenue. Other costs represent all operating costs with the exception of amounts paid to agents as collecting commission. This measure is reported on a rolling annual basis (annualised). This is useful for comparing performance across markets.
Pre-exceptional profit/(loss) before tax (£m)	Profit/(loss) before tax	Exceptional items	Profit/(loss) before tax and exceptional items. This is considered to be an important measure where exceptional items distort the operating performance of the business.
Pre-exceptional earnings/(loss) per share (pence)	Earnings/(loss) per share	Exceptional items	Earnings/(loss) per share before the impact of exceptional items. This is considered to be an important measure where exceptional items distort the operating performance of the business.
Balance sheet and returns measures			
Equity to receivables ratio (%)	None	Not applicable	Total equity divided by amounts receivable from customers. This is a measure of balance sheet strength and the Group targets a ratio of around 40%.
Headroom (£m)	Undrawn external bank facilities	None	Headroom is an alternative term for undrawn external bank facilities.
Other measures			
Customers	None	Not applicable	Customers that are being served by our agents or through our money transfer product in the home credit business and customers that are not in default in our digital business.

Constant exchange rate reconciliations

2020

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Customers	**860**	**599**	**223**	**-**	**1,682**
Credit issued	**479.6**	**143.6**	**149.0**	**-**	**772.2**
Average net receivables	**468.4**	**102.5**	**206.7**	**-**	**777.6**
Revenue	**363.4**	**157.1**	**140.8**	**-**	**661.3**
Impairment	**(132.3)**	**(53.0)**	**(62.3)**	**-**	**(247.6)**
Net revenue	**231.1**	**104.1**	**78.5**	**-**	**413.7**
Finance costs	**(33.3)**	**(7.7)**	**(13.9)**	**(0.1)**	**(55.0)**
Agents' commission	**(50.7)**	**(21.3)**	**-**	**-**	**(72.0)**
Other costs	**(160.7)**	**(71.6)**	**(70.6)**	**(12.6)**	**(315.5)**
Pre-exceptional (loss)/profit before tax	**(13.6)**	**3.5**	**(6.0)**	**(12.7)**	**(28.8)**

2019 performance, at 2019 average foreign exchange rates

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Customers	1,009	795	305	-	2,109
Credit issued	751.3	268.2	333.5	-	1,353.0
Average net receivables	562.0	164.4	260.2	-	986.6
Revenue	452.2	247.6	189.3	-	889.1
Impairment	(56.0)	(102.3)	(85.2)	-	(243.5)
Net revenue	396.2	145.3	104.1	-	645.6
Finance costs	(37.1)	(11.8)	(14.4)	(0.2)	(63.5)
Agents' commission	(51.1)	(29.9)	-	-	(81.0)
Other costs	(192.9)	(93.1)	(86.5)	(14.6)	(387.1)
Profit/(loss) before tax	115.1	10.5	3.2	(14.8)	114.0

Foreign exchange movements

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Credit issued	(18.5)	(27.9)	(0.4)	-	(46.8)
Average net receivables	(15.0)	(16.8)	0.7	-	(31.1)
Revenue	(11.4)	(25.4)	0.4	-	(36.4)
Impairment	0.8	10.6	0.5	-	11.9
Net revenue	(10.6)	(14.8)	0.9	-	(24.5)
Finance costs	1.0	1.2	(0.1)	-	2.1
Agents' commission	1.4	3.0	-	-	4.4
Other costs	3.8	9.1	0.4	-	13.3
Profit/(loss) before tax	(4.4)	(1.5)	1.2	-	(4.7)

Constant exchange rate reconciliations (continued)

2019 performance, restated at 2020 average foreign exchange rates

£m	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Credit issued	732.8	240.3	333.1	-	1,306.2
Average net receivables	547.0	147.6	260.9	-	955.5
Revenue	440.8	222.2	189.7	-	852.7
Impairment	(55.2)	(91.7)	(84.7)	-	(231.6)
Net revenue	385.6	130.5	105.0	-	621.1
Finance costs	(36.1)	(10.6)	(14.5)	(0.2)	(61.4)
Agents' commission	(49.7)	(26.9)	-	-	(76.6)
Other costs	(189.1)	(84.0)	(86.1)	(14.6)	(373.8)

Year-on-year movement at constant exchange rates

	European home credit	Mexico home credit	IPF Digital	Central costs	Group
Credit issued	(34.6%)	(40.2%)	(55.3%)	-	(40.9%)
Average net receivables	(14.4%)	(30.6%)	(20.8%)	-	(18.6%)
Revenue	(17.6%)	(29.3%)	(25.8%)	-	(22.4%)
Impairment	(139.7%)	42.2%	26.4%	-	(6.9%)
Net revenue	(40.1%)	(20.2%)	(25.2%)	-	(33.4%)
Finance costs	7.8%	27.4%	4.1%	50.0%	10.4%
Agents' commission	(2.0%)	20.8%	-	-	6.0%
Other costs	15.0%	14.8%	18.0%	13.7%	15.6%

Information for shareholders

1. The Annual Report and Financial Statements 2020 and the notice of the Annual General Meeting will be posted on 23 March 2021 to shareholders who have elected to continue receiving documents from the Company in hard copy form. All other shareholders will be sent a letter explaining how to access the documents on the Company's website from 24 March 2021 or an email with the equivalent information. Paper proxy forms can be requested from the Registrar by phoning the number above.
2. The Annual General Meeting will be held at 10.30am on 29 April 2021 at the Company's registered office, Number Three, Leeds City Office Park, Meadow Lane, Leeds, LS11 5BD. Given the challenges and restrictions imposed as a result of Covid-19, the Board's current intention is that this year's meeting will be attended only by a limited number of Company representatives to ensure that a valid meeting is held. Updates will be given via the website should plans change in light of future developments.

This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The report should not be relied on by any other party or for any other purpose. The report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Percentage change figures for all performance measures, other than profit before taxation and earnings per share, unless otherwise stated, are quoted after restating prior year figures at a constant exchange rate (CER) for 2020 in order to present the underlying performance variance.

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International Personal Finance will host a webcast of its 2020 full-year results presentation at 09.00hrs (GMT) today – Wednesday 3 March 2021, which can be accessed via our website at www.ipfin.co.uk.

A copy of this statement can be found on our website at www.ipfin.co.uk.

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